MOSS-ADAMS

Valley Medical Center

INDEPENDENT AUDITOR'S REPORT

AND FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Public Hospital District No. 1
of King County, Washington
dba Valley Medical Center

We have audited the accompanying balance sheet of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center, as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center, as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 2 through 20 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Everett, Washington
April 1, 2010

Introduction

This report consists of three parts: Management's Discussion and Analysis (MD&A), Financial Statements, and Notes to the Financial Statements. The Medical Center is committed to transparency in financial reporting and effective stewardship of its assets, and believes this discussion provides such information.

The following discussion and analysis provides an overview of the financial position and activities of Public Hospital District No. 1 of King County, dba Valley Medical Center (the Medical Center) for the year ended December 31, 2009. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and accompanying notes that follow this section.

Summary of Financial Highlights and Trends

For the Year Ended December 31, 2009

The Medical Center concluded 2009 with an operating income of $18.3 million, a 154.1% increase over 2008's operating income of $7.2 million. That operating income resulted in an operating margin of 4.9%, compared to 2.1% in 2008.

The Medical Center's total assets increased $1.8 million, or .3%, for the year ending December 31, 2009. Total net assets increased $17.8 million, or 9.1%, due primarily to operating income of $18.3 million. Long-term debt, net of current portion, decreased by $6.3 million, or 2.1%, due to scheduled principal payments.

Multiple factors contributed to the operating performance for 2009:

- Discharges increased 1%, from 16,377 in 2008 to 16,539 in 2009.
- Correspondingly, patient days, including NICU, increased .8% from 58,734 in 2008 to 59,218 in 2009.
- The number of surgery patients increased 1.6%, from 10,582 in 2008 to 10,753 in 2009. That increase was due to higher inpatient surgical volumes (1.3% over 2008), as well as the deployment of robotics surgery in late 2009 for minimally invasive urological and gynecological procedures. Outpatient surgical volumes decreased (6.9% from 2008); management attributes the decrease to the overall state of the national and regional economies whereby patients are deferring elective outpatient-based procedures.
- Emergency room visits increased .7%, from 69,703 in 2008 to 70,179 in 2009.
- Births decreased 2.9%, from 4,070 in 2008 to 3,952 in 2009. Management believes current economic conditions are a possible reason for the decline.

Summary of Financial Highlights and Trends (continued)

For the Year Ended December 31, 2009 (continued)

- Outpatient visits, both within the hospital and including the entire clinic network, increased 1.6%, from 500,139 in 2008 to 508,070 in 2009. The increase is due to expansion within the clinic network, as a new urgent care clinic and several specialty clinics opened in 2009. In addition, management believes the increase in outpatient visits is reflective of a broader national trend for patients to have less invasive procedures.

- Hospital payor mix in 2009, comparative to the payor mix in 2008 (using net revenue), showed a decrease in self-pay and commercial payors, and an increase in Medicare and Medicaid. Management attributes the decrease in self-pay to responsive and timely financial counseling to find funding sources or documented charity care.

- Charity care increased \$5.2 million, or 59.2%, from \$8.9 million in 2008 to \$14.1 million in 2009. Bad debt decreased by \$850,000, or 2.9%, from \$29.9 million in 2008 to \$29.0 million in 2009. As previously mentioned, the Medical Center has been extremely active with financial counseling to find appropriate funding sources for patients.

- Salaries and wages increased by \$5.0 million (3.4%), from \$148.1 million in 2008 to \$153.2 million in 2009, largely as a result of the Medical Center's contractually agreed-upon increases in rate of pay per hour. Further, the Medical Center actively and aggressively monitors labor productivity on a daily and shift-by-shift basis, which has resulted in using only 3% of its total productive hours through agency and traveler personnel by the end of 2009.

- Employee benefits increased \$4.5 million (11.4%), from \$39.7 million in 2008 to \$44.2 million in 2009, primarily due to increased utilization of self-insured health benefits.

- Supply and other expense increased by \$2.4 million (1.9%), from \$124.4 million in 2008 to \$126.9 million in 2009. That increase was primarily attributed to continued inflationary increases within high-dollar supply items used in technologically advanced procedures, including robotics, as well as increases within physician and professional fees related to emergency room coverage, medical directorships, and expanded hospital services with hospitalists, laborists, and intensivists.

- Depreciation expense increased \$1.7 million (8.7%), from \$20.0 million in 2008 to \$21.7 million in 2009. This was anticipated, as the Medical Center has experienced significant expansion and construction activity on both the main campus and within the clinic network throughout the Medical Center's District.

Summary of Financial Highlights and Trends (continued)

For the Year Ended December 31, 2008

The Medical Center concluded 2008 with an operating income of $7.2 million, which was a 66% decrease over 2007's operating income of $21.4 million. That operating income resulted in an operating margin of 2.1% in 2008, compared to a 6.5% operating margin in 2007.

The Medical Center's total assets increased $48.4 million, or 9.4%, for the year ending December 31, 2008. Total net assets increased $7.0 million, or 3.7%, due primarily to operating income of $7.2 million. Long-term debt, net of current portion, increased $40.1 million, or 15.5%. That increase was directly related to the issuance of the 2008 LTGO bonds, which was a refunding of the 2006 revenue bonds and a new LTGO issue of approximately $40 million.

Multiple factors contributed to the operating performance for 2008:

- Discharges increased .6% from 16,281 in 2007 to 16,377 in 2008.
- Correspondingly, patient days, including NICU, increased 2.4%, from 57,355 in 2007 to 58,734 in 2008. In particular, the NICU saw an increase in the level 3 days.
- Surgery patients decreased 3.2%, from 10,937 in 2007 to 10,582 in 2008. During 2007, a new two-floor surgery center was under construction and, at various times during 2008, a number of surgery suites were not in operation.
- Emergency room visits decreased by 3.4%, from 72,137 to 69,703. Some of the decrease is attributable to the opening of three urgent care clinics. In early 2007, the Medical Center also commenced construction on a new emergency services tower which, at various times throughout the year, altered access into the emergency department.
- Births increased 5.9%, from 3,844 in 2007 to 4,070 in 2008. Management believes the increase was due to several factors, including the expansion of the newly remodeled and expanded Birth Center, which opened with a different model: LDRPN (labor, delivery, recovery, postpartum, and nursery), and the neonatal intensive care unit. The Medical Center also added a midwifery program with six midwives, which increased volumes by attracting new patients to the Medical Center.
- Outpatient visits increased 2.1%, from 489,973 in 2007 to 500,139 in 2008. The Medical Center opened three urgent care clinics in 2008.
- Salaries and wages increased $16.3 million (12.0%) from $131.9 million in 2007 to $148.1 million in 2008. Mid-2008, the Medical Center switched from an acuity-based staffing model to a matrix model. The Medical Center also strengthened its nursing core by employing more registered nurses and fewer patient care assistants. In addition, a concerted effort was deployed to fill highly specialized positions, thus reducing the need for contracted personnel.

Summary of Financial Highlights and Trends (continued)

For the Year Ended December 31, 2008 (continued)

- Employee benefits increased $3.3 million (9.0%), from $36.4 million in 2007 to $39.7 million in 2008, an increase that was primarily attributed to high utilization of benefits, which resulted from an increase in the number of employees, as well as employee dependents, covered under the Medical Center's plan.

- Supplies and other expenses increased $12.2 million (11.0%), from $112.2 million in 2007 to $124.4 million in 2008. This category also includes purchased services and professional fees.

Volume and Statistics

Following are key operating statistics for the years ended December 31, 2009, 2008, and 2007, respectively, as referenced within the above Financial Highlights.

	2009	2008	2007
Inpatient and Operating Room Activity			
Available beds	247	245	234
Discharges	16,539	16,377	16,281
Patient days	59,218	58,734	57,355
Length of stay	3.35	3.56	3.40
Occupancy	66%	61%	63%
Surgery patients	10,753	10,582	10,937
Births	3,952	4,070	3,844
Ambulatory and Emergency Services			
Outpatient visits	508,070	500,139	489,973
Emergency department visits	70,179	69,703	72,137
Medical Center Staffing			
Full-time equivalent employees	2,087	2,037	1,903

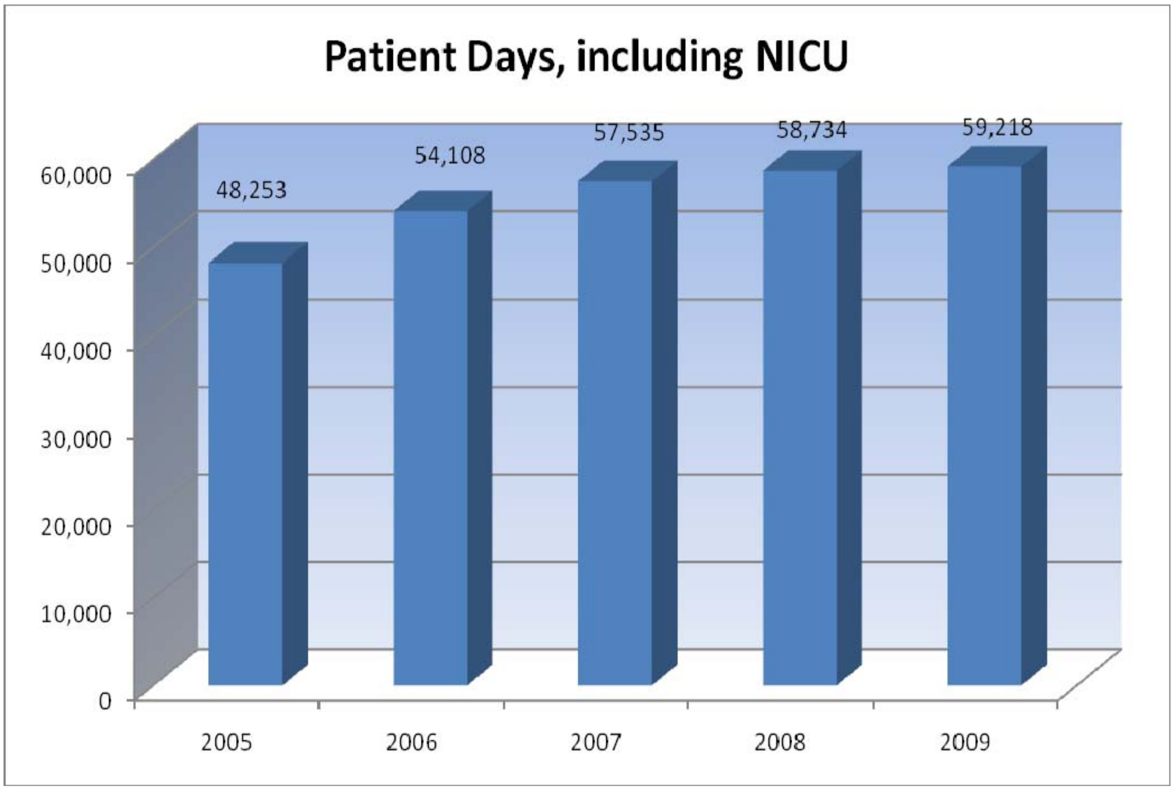
Overall, the Medical Center experienced increased volumes in 2009 compared with the prior two years.

The number of available beds has increased between 2007 and 2009. In January 2008, available beds, which were 234 in 2007, increased to 245. More beds became available in both 2007 and 2008 due to two factors: (1) additional beds added to accommodate expanding service lines, including a step-down progressive care unit and a comprehensive neurosciences unit, and (2) the completion of construction activity that had resulted in beds previously being taken out of service. During 2009, additional beds that had been taken out of service during the construction of the emergency services tower came back on line. Further, several bed complements were modified to accommodate the Birth Center's and Neurosciences' volumes.

Volume and Statistics (continued)

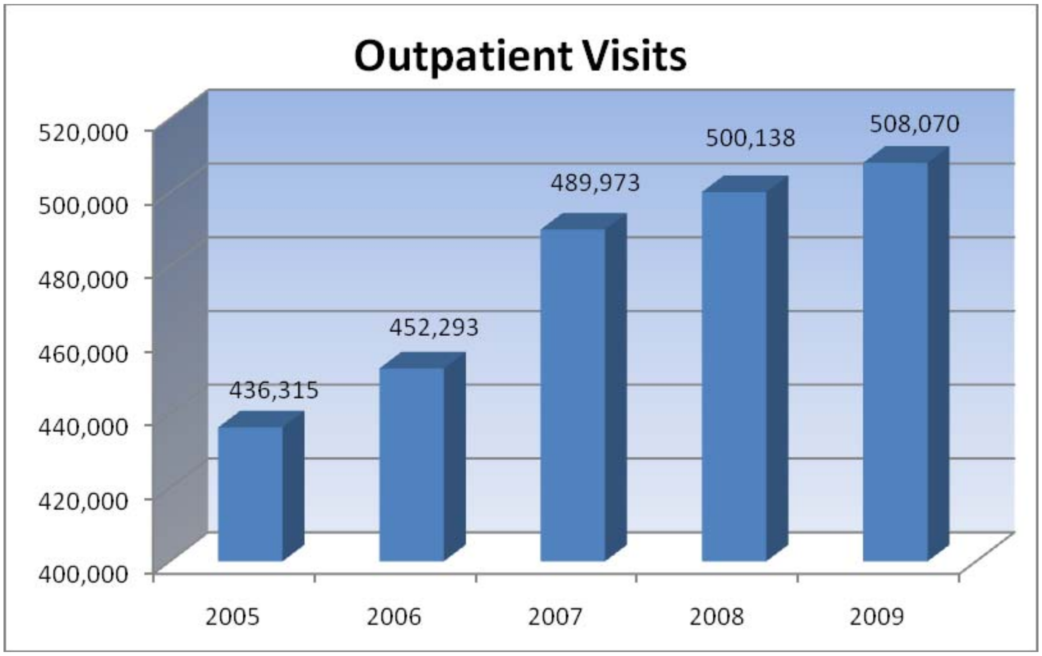
As volumes have increased and the Medical Center has expanded its service lines into new specialties and subspecialties, additional staff, including many specialists, have been employed, which is demonstrated by the 2.5% and 7% increases in total FTEs between 2008-2009 and 2007-2008, respectively.

As the following graph illustrates, patient days have increased by 22.8% between 2005 and 2009 and reflect overall volume growth across the Medical Center's inpatient departments, coupled with a general increase in case mix. Patient days have increased in both acute care and critical care areas, as well as in same-day stays.



Outpatient visits have increased 16.4% between 2005 and 2009. Growth in outpatient volumes has occurred in both hospital-based departments, as well as in the expanding primary, urgent care, and specialty care clinic network.

Volume and Statistics (continued)



Overview of the Financial Statements

The Medical Center's financial statements consist of three statements: balance sheet; statement of revenues, expenses, and changes in net assets; and statement of cash flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

The balance sheet includes all of the Medical Center's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be used for general purposes and which are designated for a specific purpose. The balance sheet also includes information to help compute the rate of return on investments, evaluate the capital structure of the Medical Center, and assess the liquidity and financial flexibility of the Medical Center.

The statement of revenues, expenses, and changes in net assets reports all of the revenues and expenses during the time period indicated. Net assets—the difference between assets and liabilities—is one way to measure the financial health of the Medical Center and if the Medical Center has been able to recover all its costs through patient service and other revenue sources.

The statement of cash flows reports the cash provided by the Medical Center's operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements. This statement provides meaningful information on where the Medical Center's cash was generated and what it was used for.

Balance Sheet

The following is a presentation of certain condensed financial information derived from the Medical Center's balance sheet (dollars in thousands):

	2009	2008	2007
ASSETS			
Current assets	$ 136,058	$ 143,433	$ 129,726
Assets limited as to use, net of current amount	69,900	95,870	143,739
Capital assets, net	346,136	305,698	226,515
Other noncurrent assets	13,166	18,440	15,039
Total assets	$ 565,260	$ 563,441	$ 515,019
LIABILITIES			
Current liabilities	$ 57,670	$ 66,120	$ 63,762
Noncurrent liabilities	294,389	301,960	262,925
Total liabilities	352,059	368,080	326,687
NET ASSETS			
Invested in capital assets, net of related debt	47,723	53,271	66,623
Restricted			
For debt service	6,981	5,286	9,823
Expendable for specific operating activities	342	349	284
Unrestricted	158,155	136,455	111,602
Total net assets	213,201	195,361	188,332
Total liabilities and net assets	$ 565,260	$ 563,441	$ 515,019

Financial Analysis

Balance Sheet - Assets - 2009 Comparative to 2008

Total Assets were $565.3 million at year-end, compared to $563.4 million at December 31, 2008, an increase of $1.8 million (.3%).

Current Assets decreased by $7.4 million, or 5.1%, from $143.4 million to $136.1 million. Cash and cash equivalents decreased by $7.6 million, while short-term investments increased by $2.8 million. The increase in short-term investments is reflective of current economic and market conditions where short-term investment returns are slightly higher than those within money market funds. Supply inventory, as a result of the full implementation of a perpetual inventory system, decreased by approximately $500,000. Prepaid expenses and other assets increased by nearly $1.7 million.

Financial Analysis (continued)

Balance Sheet -Assets - 2009 Comparative to 2008 (continued)

Noncurrent Assets Limited as to Use decreased by $26 million (27.1%), from $95.9 million to $69.9 million at the end of 2009. That is a direct reflection of the spend-down of the 2008 LTGO debt proceeds as the Emergency Services Tower construction neared completion for a February 2010 opening.

Capital Assets, Net increased by $40.4 million (13.2%), from $305.7 million in 2008 to $346.1 million in 2009. This is directly related to the construction of the $125 million Emergency Services Tower project, which commenced in 2006, and will be completed, in several phases, by mid-2010. The Emergency Services Tower project is composed of two floors of underground parking, a new and significantly expanded 56-room emergency department (both opened in February 2010), a new and expanded critical care unit, two additional patient floors, and enhanced information technology.

Other capital assets funded during 2009 included construction of a new urgent care clinic; the build, implementation, and deployment of an electronic medical record system across the entire primary and urgent care clinic network; the renovation of current hospital space; acquisition of hospital equipment; and the completion of hospital-based infrastructure, including a central utility plant.

Other Noncurrent Assets decreased by $5.3 million (28.6%), from $18.4 million to $13.2 million.

Current Liabilities decreased by $8.5 million, from $66.1 million at December 31, 2008 to $57.7 million at December 31, 2009. This decrease was due to decreases in accounts payable and accrued salaries, wages, and benefits.

Noncurrent Liabilities decreased by $7.6 million (2.5%), from $302.0 million to $294.4 million. The decrease is primarily attributed to the principal payments that were made on the outstanding debt in 2009.

Financial Analysis (continued)

Balance Sheet - Assets - 2008 Comparative to 2007

Total Assets were $563.4 million at year-end, compared to $515.0 million at December 31, 2007, an increase of $48.4 million (9.4%).

Current Assets increased by $13.7 million, or 10.6%, from $129.7 million to $143.4 million. Cash and cash equivalents decreased 40%, or approximately $23.0 million, while short-term investments increased 540%, or approximately $30.0 million. In total, however, highly liquid investments increased by a net of approximately $11.0 million, which also explains one-third of the overall increase in total assets at year-end. The overall increase in short-term highly liquid investments and the decrease in cash is reflective of overall portfolio and cash management strategies designed to enhance returns in then-current (year-end 2008) market conditions.

Noncurrent Assets Limited as to Use decreased by $47.9 million (33.3%), from $143.7 million to $95.9 million at the end of 2008. That is a direct reflection of the spend-down of the 2008 LTGO debt proceeds as the Emergency Services Tower construction proceeded.

Capital Assets, Net increased by $79.2 million (35.0%), from $226.5 million in 2007 to $305.7 million in 2008. This is directly related to the construction of the $125 million Emergency Services Tower project, which commenced in 2006, and was fully under construction during all of 2007. The project will be completed, in several phases, by mid-2010. The Emergency Services Tower project is composed of two floors of underground parking, a new and significantly expanded 56-room emergency department (both opened in February 2010), a new and expanded critical care unit, two additional patient floors, and enhanced information technology.

Other capital assets funded during 2008 included the completion of the two-floor renovation and construction of the Surgery Center, multiple informational technology initiatives, and the construction of several urgent care clinics.

Other Noncurrent Assets increased by $3.4 million (22.6%), from $15.0 million to $18.4 million.

Current Liabilities increased by $2.4 million, from $63.8 million at December 31, 2007, to $66.1 million at December 31, 2008. This decrease was due to increases in accounts payable and accrued salaries, wages, and benefits.

Noncurrent Liabilities increased by $39.0 million (14.9%), from $262.9 million to $302.0 million. The increase is due to the 2008 LTGO debt issue, of which $40 million was a new issue (and the remainder was a refunding of the 2006 revenue series).

Financial Analysis (continued)

Balance Sheet - Net Assets

The Medical Center reports its net assets in three categories (the Medical Center does not have any assets meeting the criteria of the fourth category, donor-restricted nonexpendable net assets):

Invested in capital assets net of related debt - Total investment in Medical Center property, plant, and equipment net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted for debt service and expendable net assets - Resources the Medical Center is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties that have placed time or purpose restrictions on the use of the asset.

Unrestricted net assets - All other funds available to the Medical Center for the general obligations to meet current expenses for any purpose.

As of December 31, 2009, total net assets increased by $17.8 million (9.1%) to $213.2 million, from $195.4 million at December 31, 2008.

As of December 31, 2008, total net assets increased by $7.0 million (3.7%) to $195.4 million, from $188.3 million at December 31, 2007.

Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the Medical Center, as well as the nonoperating revenues and expenses. Activities are reported as either operating or nonoperating. The use of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Financial Analysis (continued)

A summary of the Medical Center's revenues, expenses, and changes in net assets for the last three years is presented below.

Medical Center Summary of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2009, 2008, and 2007
(dollars in thousands)

	2009	2008	2007
Net operating revenue	$ 372,729	$ 348,116	$ 327,699
Net operating expenses	354,386	340,899	306,262
Operating income	18,343	7,217	21,437
Nonoperating income (expense)	(503)	(188)	4,007
Increase in net assets	17,840	7,029	25,444
Net assets, beginning of year	195,361	188,332	162,888
Net assets, end of year	$ 213,201	$ 195,361	$ 188,332

Total Operating Revenues - For the Year Ended December 31, 2009

Total Net Operating Revenue consists of net patient revenue, tax revenues, and other operating revenues. For the year ended December 31, 2009, the Medical Center's net operating revenue was $372.7 million. The net operating revenues for 2009 increased 7.1% over 2008's net operating revenues of $348.1 million.

Of the $372.7 million, $331.5 million was net patient revenue, $19.4 million was tax revenue, and $21.8 million was other revenue.

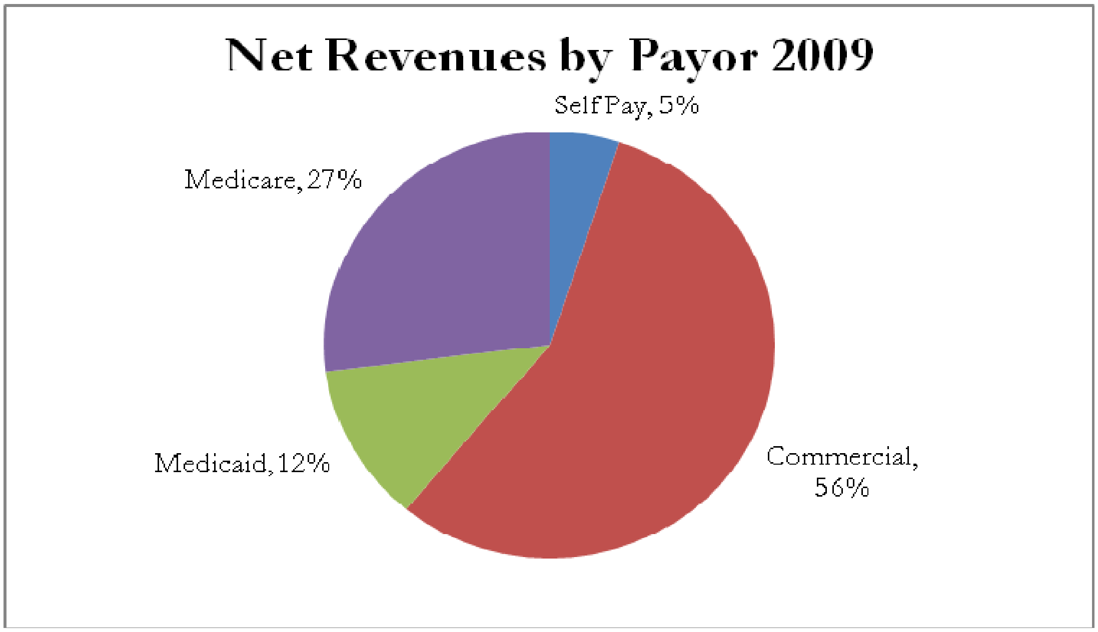
The growth within net patient revenue was $22.2 million, from $309.3 million in 2008 to $331.5 million in 2009. The increase can be attributed partially to volume, as outpatient volumes grew between 2008 and 2009. In addition to the growth in volume and the impact of a selected rate increase mid-year, the increase in net patient revenue resulted from strong up front collection practices, responsive financial counseling to find funding sources or documented charity care, increased denial and underpayment recovery, and continued process improvements with revenue systems and processes.

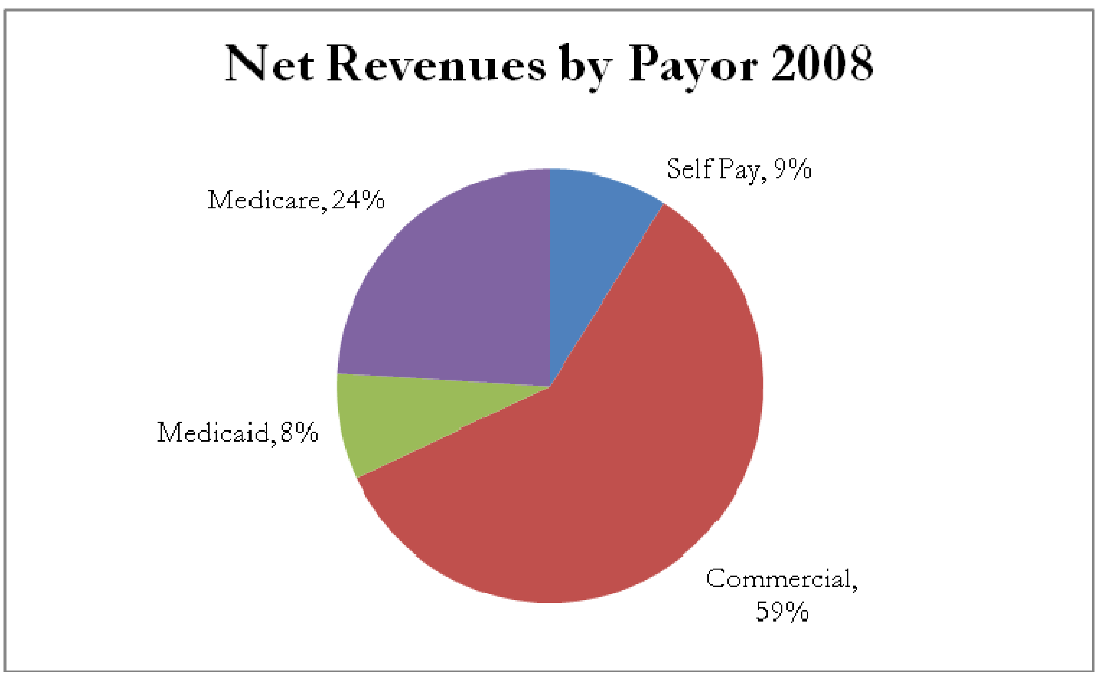
Hospital payor mix in 2009, comparative to the payor mix in 2008 (using net revenue), showed a decrease in self-pay and commercial payors, and an increase in Medicare and Medicaid. Management attributes the decrease in self-pay to responsive and timely financial counseling to find funding sources or documented charity care.

Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2009 (continued)

The Medical Center's largest singular payor, based upon gross revenues, is Medicare, though commercial payors, collectively, comprise the largest segment. The graph below illustrates the Medical Center's payor mix based on net revenues for the years ended December 31, 2009 and 2008.





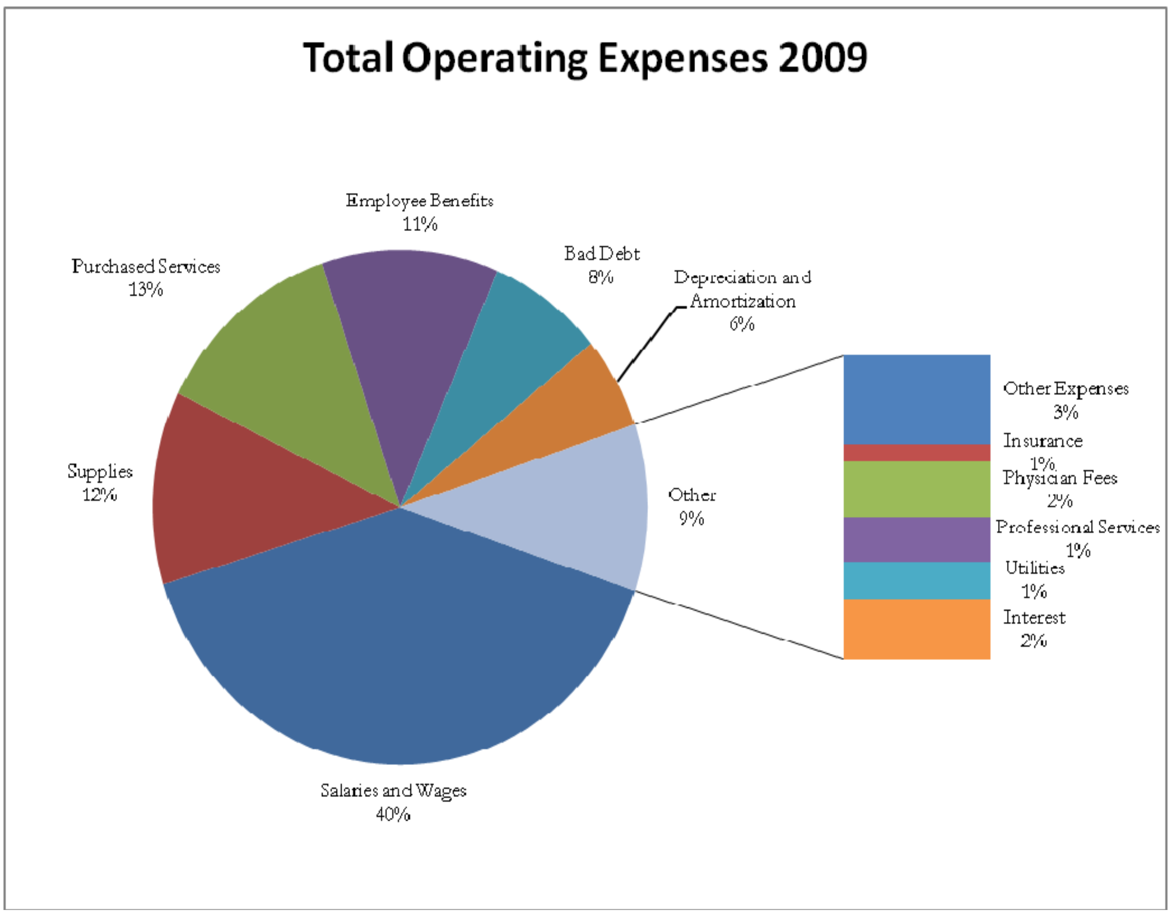
Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2009 (continued)

Other operating revenue grew by $1.5 million (7.4%), from $20.3 million in 2008 to $21.8 million in 2009. Other operating revenue includes the radiology, cardiac, and radiation oncology joint ventures, as well as laboratory services, pharmacy, and the cafeteria.

Net Operating Expenses increased by $13.5 million (4.0%), from $340.9 million in 2008 to $354.4 million in 2009. Salaries and wages increased by $5.0 million, or 3.4%; employee benefits increased by $4.5 million, or 11.4%; supplies and other expenses increased by $2.4 million, or 2.0%; depreciation increased by $1.7 million, or 8.7%; and interest and amortization decreased by approximately $230,000, or 2.7%.

The graph below illustrates the various components of operating expenses expressed as percentages of total operating expense, including bad debt expense, which, for financial statement purposes, is netted against net patient revenue on the statement of revenues, expenses, and changes in net assets.



Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2009 (continued)

Salaries and Wages, as mentioned earlier, increased primarily due to contractually agreed-upon hourly wages under various labor agreements, as well as the employment of additional physicians, registered nurses, and other key clinical personnel. Hiring into highly specialized positions continued to reduce the Medical Center's need for contract labor.

Employee Benefits, as a percent of salaries and wages, increased from 26.8% to 28.9%. The largest increases were within the utilization of self-insured health and dental plan costs.

Supplies and Other Expenses consist of supply expense, physician fees, professional services, purchased services, utilities, and other expenses. Supply expense itself increased $4.4 million (10.2%), and can be attributed to continued inflationary increases within high-dollar supply items used in technologically advanced procedures, including robotics. Supply expense as a percentage of net patient revenue remained stable in 2009.

Physician fees and professional services increased related to emergency room coverage, medical directorships, and expanded hospital services with hospitalists, laborists, and intensivists. Purchased services decreased by 3.0%, or $1.5 million, from $49.6 million in 2008 to $48.1 million in 2009. The decrease was due to continued focus by management on cost containment and emphasis on active monthly monitoring of actual to budget variances. Utility expense was flat between years. Other expenses decreased 9.9%, or $1.3 million, from $13.1 million in 2008 to $11.8 million in 2009. That decrease was also due to continued focus by management on active cost containment and active, monthly monitoring of actual to budget variances.

Depreciation increased $1.7 million, or 8.9%, from $20.0 million in 2008 to $21.7 million in 2009. This expense was anticipated and due to the completion and capitalization of several large construction projects.

Interest and Amortization decreased approximately $230,000, or 2.7%, from $8.6 million in 2008 to $8.4 million in 2009. The decrease is primarily related to the defeasance of the 1992 debt issue, coupled with the amount of capitalized interest the Medical Center incurred in 2009 on the Emergency Service Tower construction project.

Nonoperating Income (Expense) for the year changed by ($315,000), or 167%, from ($188,333) to ($503,362). The decrease is largely attributed to economic conditions and was largely comprised of unrealized negative changes in the market value of investments. These unrealized losses were partially offset by rental income from medical office buildings.

Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2008

Net Operating Revenue consists of net patient revenue, tax revenues, and other operating revenues. For the year ended December 31, 2008, the Medical Center's net operating revenue was $348.1 million. The net operating revenues for 2008 increased 6.2% over 2007's net operating revenue of $327.7 million.

Of the $348.1 million, $309.3 million was net patient revenue, $18.5 million was tax revenue, and $20.3 million was other revenue.

The growth within net patient revenue was $23.0 million, from $286.4 million in 2007 to $309.3 million in 2008. The increase is partially due to volume growth and partially due to a selected rate increase that was enacted mid-year.

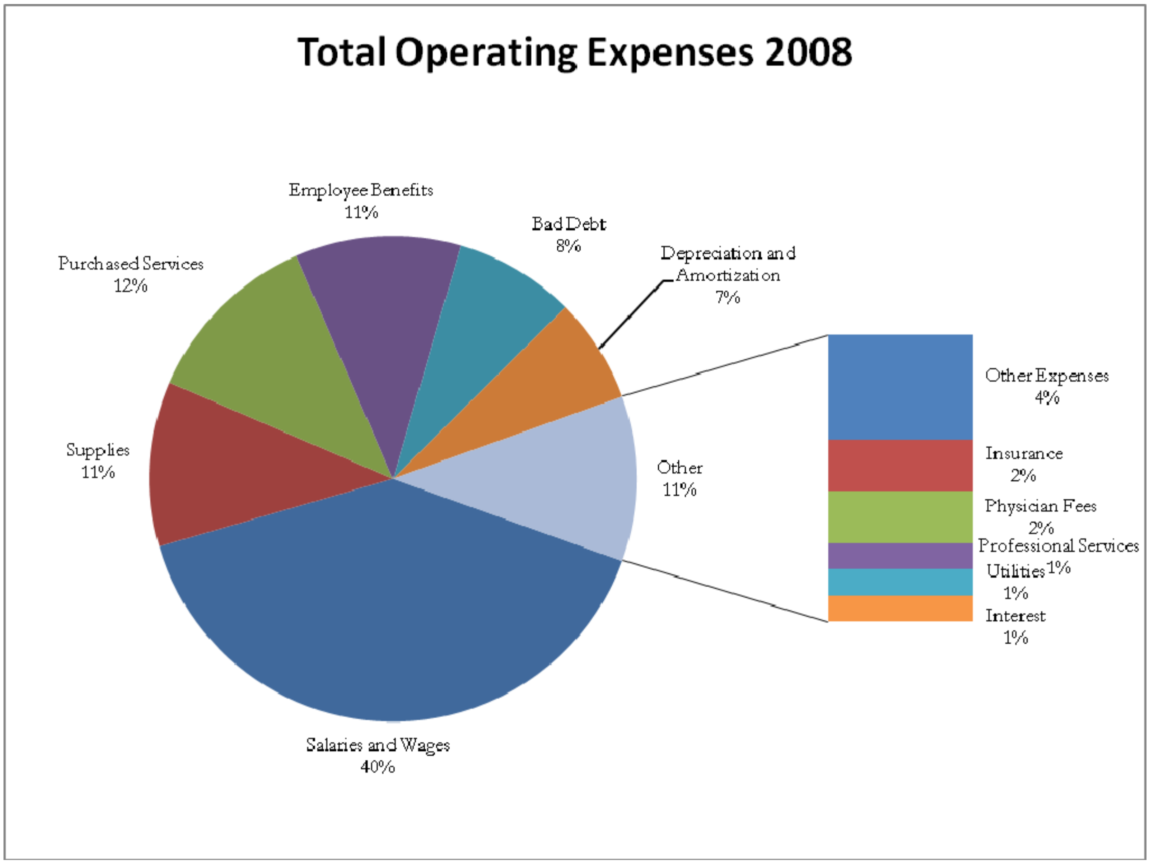
Other operating revenue decreased by $3.0 million (13.1%), from $23.3 million in 2007 to $20.3 million in 2008.

Net Operating Expenses increased by $34.6 million (11.3%), from $340.9 million in 2008 to $354.4 million in 2009. Salaries and wages increased by $16.3 million, or 12.3%; employee benefits increased by $3.3 million, or 9.1%; supplies and other expenses increased by $12.2 million, or 10.9%; depreciation increased by $1.0 million, or 5.1%; and interest and amortization increased by $1.9 million, or 27.6%.

Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2008 (continued)

The graph below illustrates the various components of operating expenses expressed as percentages of total operating expense, including bad debt expense, which, for financial statement purposes, is netted against net patient revenue on the statement of revenues, expenses, and changes in net assets.



Salaries and Wages, as mentioned earlier, increased primarily as the Medical Center switched from an acuity-based staffing model to a matrix schedule. The Medical Center's model also strengthened the nursing core by employing more registered nurses and less patient care assistants. Highly specialized positions were also filled during 2008, reducing the need for contract personnel. Increases were also attributed to contractually agreed-upon salary increases under various labor agreements.

Employee Benefits increased 9.1%, which was attributed to high utilization of benefits, as well as higher pension costs.

Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2008 (continued)

Supplies and Other Expenses consist of supply expense, physician fees, professional services, purchased services, utilities and other expenses. In 2008, supply expense itself was down, year to year, on a volume/case mix adjusted basis. Physician fees represent the Medical Center's investment in certain physician coverage programs and medical directorships, as well as emergency department call coverage. These programs were expanded during 2008.

Depreciation was fairly constant between years, increasing just under $1.0 million, or 5.1%. While a significant amount of construction was capitalized in both 2007 and 2008, the Medical Center had a facility life analysis performed by an external consultant on the Medical Center's buildings that resulted in extending the composite remaining economic life on those buildings.

Interest and Amortization increased $1.8 million, or 27.6%, between 2007 and 2008, from $6.8 million to $8.6 million. There were several reasons for the increase. Prior to March 2008, the Medical Center had $170 million in auction rate securities. In March 2008, the Medical Center successfully refunded both the 2005 and 2006 bond series with the 2008 LTGO bond series at a fixed interest rate of 5.25%. However, the Medical Center paid higher than anticipated variable rate interest for the time period between when the auction rate market dislocated and when the refunding was finalized. The Medical Center also issued new money as part of the 2008 LTGO debt series.

Nonoperating Income (Expense) decreased from $4.0 million in 2007 to a loss of nearly ($200,000) in 2008. Given that the Medical Center is statutorily limited in what it may invest in, the significant decrease is due to market conditions in the overall economy and the associated unrealized losses associated with those market fluctuations.

The large gain in 2007 is also not an appropriate comparative. In November 2007, the $65.0 million interest rate swaps associated with the 2005 revenue bonds were unwound, resulting in a nonoperating gain of $4.1 million.

Financial Analysis (continued)

Statement of Cash Flows

The statement of cash flows presents the information related to cash inflows and outflows summarized by operating, capital, and noncapital financing and investing activities, and information about cash receipts and cash payments during the year. This statement also helps users assess the Medical Center's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Medical Center Summary of Cash Flows - Direct Method
Years Ended December 31, 2009, 2008, and 2007
(dollars in thousands)

	2009	2008	2007
Cash flows from			
Operating activities	$ 13,625	$ 7,304	$ 31,156
Noncapital financing activities	19,311	18,550	17,802
Capital and related financing activities	(82,510)	(65,152)	(68,187)
Investing activities	13,417	9,920	24,614
Net change in cash and cash equivalents	(36,157)	(29,378)	5,385
Cash and cash equivalents, beginning of year	64,585	93,963	88,578
Cash and cash equivalents, end of year	$ 28,428	$ 64,585	$ 93,963

Operating activities - This section reflects operating cash flows and the net cash provided by the operating activities of the Medical Center.

Noncapital financing activities - This section shows the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes.

Capital and related financing activities - This section reflects the sources and uses of cash for the acquisition and construction of capital and related items.

Investing activities - This section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities.

Contacting the Medical Center's Financial Management

This financial report is intended to provide our taxpayers, patients, and creditors with a general overview of the Medical Center's finances and operations and to demonstrate the Medical Center's accountability for those finances and the tax funding it receives. You may access the Medical Center's annual and monthly financial information via our website, www.valleymed.org. If you have questions about this report or need additional financial information, please contact the Medical Center's Finance Department via phone at 425.228.3450 or at Attn: Vice President of Finance, PO Box 50010, Renton, WA 98058.

PUBLIC HOSPITAL DISTRICT NO. 1
OF KING COUNTY, WASHINGTON
BALANCE SHEET

ASSETS

	DECEMBER 31, 2009	DECEMBER 31, 2008
CURRENT ASSETS		
Cash and cash equivalents	$ 27,645,292	$ 35,212,714
Short-term investments	38,457,125	35,658,322
Accounts receivable, less allowance for uncollectible accounts of $22,448,850 in 2009 and $21,307,699 in 2008	35,142,257	32,339,273
Assets whose use is limited, required for current obligations	23,347,921	29,909,137
Supplies inventory	4,142,705	4,642,731
Prepaid expenses and other assets	7,322,870	5,670,839
Total current assets	136,058,170	143,433,016
LONG-TERM INVESTMENTS	6,940,205	11,762,302
ASSETS LIMITED AS TO USE		
By board for general capital improvements	80,970,121	114,030,561
By board for self-insurance reserve funds	1,886,235	1,744,837
Under deferred compensation arrangements	3,410,680	4,717,310
Under revenue bond indenture agreements	6,355,940	4,766,309
Under general and limited general obligation bond agreements	625,096	519,689
	93,248,072	125,778,706
Less amounts required for current obligations	(23,347,921)	(29,909,137)
	69,900,151	95,869,569
CAPITAL ASSETS		
Land	8,286,029	8,286,029
Construction in progress	143,686,807	97,399,006
Depreciable capital assets, net of accumulated depreciation	194,163,288	200,013,190
	346,136,124	305,698,225
DEFERRED FINANCING COSTS	4,480,407	4,725,475
INVESTMENT IN AFFILIATE	1,744,814	1,952,532
Total assets	$ 565,259,871	$ 563,441,119

LIABILITIES AND NET ASSETS

	DECEMBER 31, 2009	DECEMBER 31, 2008
CURRENT LIABILITIES		
Warrants payable	$ 4,229,841	$ 4,219,676
Accounts payable	15,945,236	17,689,734
Accrued salaries, wages, and benefits	22,825,169	25,176,835
Estimated third-party payor settlements	400,000	400,000
Interest, patient refunds, and other payables	7,808,694	11,796,953
Current portion of long-term debt and capital lease obligations	6,461,028	6,837,255
Total current liabilities	57,669,968	66,120,453
DEFERRED COMPENSATION	2,436,531	3,754,443
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	291,952,172	298,204,713
Total liabilities	352,058,671	368,079,609
NET ASSETS		
Invested in capital assets, net of related debt	47,722,924	53,271,061
Restricted		
For debt service	6,981,036	5,285,998
Expendable for specific operating activities	341,733	348,995
Unrestricted	158,155,507	136,455,456
Total net assets	213,201,200	195,361,510
Total liabilities and net assets	$ 565,259,871	$ 563,441,119

PUBLIC HOSPITAL DISTRICT NO. 1
OF KING COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	YEAR ENDED DECEMBER 31, 2009	2008
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $29,014,974 in 2009 and $29,867,693 in 2008)	$ 331,547,530	$ 309,323,803
Revenue from taxation	19,423,202	18,531,186
Other operating revenue	21,758,449	20,261,406
Total operating revenues	372,729,181	348,116,395
OPERATING EXPENSES		
Salaries and wages	153,161,787	148,148,994
Employee benefits	44,249,885	39,711,384
Supplies and other expenses	126,868,081	124,438,743
Depreciation	21,721,172	19,981,900
Interest and amortization	8,385,056	8,617,573
Total operating expenses	354,385,981	340,898,594
OPERATING INCOME	18,343,200	7,217,801
NONOPERATING INCOME (EXPENSE)		
Investment loss	(1,260,602)	(883,472)
Other, net	757,092	695,139
Net nonoperating income (expense)	(503,510)	(188,333)
INCREASE IN NET ASSETS	17,839,690	7,029,468
NET ASSETS, beginning of year	195,361,510	188,332,042
NET ASSETS, end of year	$ 213,201,200	$ 195,361,510

 See accompanying notes.

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

	YEAR ENDED DECEMBER 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 328,744,546	$ 307,976,720
Payments to suppliers and contractors	(127,396,235)	(124,950,234)
Payments to employees	(201,081,250)	(187,220,774)
Other cash receipts	13,357,904	11,498,659
Net cash from operating activities	13,624,965	7,304,371
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from tax levy	19,317,795	18,484,065
Other	(7,262)	65,400
Net cash from noncapital financing activities	19,310,533	18,549,465
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of refunding bonds		218,220,000
Proceeds from premium on refunding bonds		1,772,154
Payment to refunding bond escrow agent		(170,753,540)
Cash paid for bond issuance		(3,750,119)
Principal payments on long-term debt and capital lease obligations	(6,847,402)	(6,309,341)
Interest paid, net of amounts capitalized	(8,001,397)	(6,497,248)
Purchases of capital assets	(68,425,471)	(98,463,679)
Other	764,354	629,739
Net cash from capital and related financing activities	(82,509,916)	(65,152,034)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions from joint venture	4,519,566	5,392,397
Cash provided by investments and assets whose use is limited	47,031,646	150,471,447
Deposits into investments and assets whose use is limited	(42,222,933)	(150,271,556)
Investment and interest income, net of amounts capitalized	4,088,697	4,328,190
Net cash from investing activities	13,416,976	9,920,478
NET DECREASE IN CASH AND CASH EQUIVALENTS	(36,157,442)	(29,377,720)
CASH AND CASH EQUIVALENTS, beginning of year	64,585,366	93,963,086
CASH AND CASH EQUIVALENTS, end of year	$ 28,427,924	$ 64,585,366
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and cash equivalents	$ 27,645,292	$ 35,212,714
Cash and cash equivalents in assets whose use is limited	782,632	29,372,652
	$ 28,427,924	$ 64,585,366

See accompanying notes.

PUBLIC HOSPITAL DISTRICT NO. 1
OF KING COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS (continued)

Increase (Decrease) in Cash and Cash Equivalents

	YEAR ENDED DECEMBER 31, 2009	YEAR ENDED DECEMBER 31, 2008
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 18,343,200	$ 7,217,801
Adjustments to reconcile operating income to net cash from operating activities		
Interest expense considered a capital financing activity	8,001,397	6,497,248
Revenue from tax levies considered a noncapital financing activity	(19,423,202)	(18,531,186)
Interest income considered an investing activity	(4,088,697)	(4,328,190)
Depreciation	22,147,204	20,433,070
Amortization	463,702	1,273,412
Provision for bad debts	29,014,974	29,867,693
Income recognized from joint venture	(4,311,848)	(4,434,557)
Changes in current assets and liabilities		
Accounts receivable	(31,817,958)	(31,343,969)
Supplies inventory	500,026	(700,755)
Prepaid expenses and other assets	(1,652,031)	1,752,339
Warrants payable	10,165	(158,056)
Accounts payable	4,095,870	1,027,305
Accrued salaries, wages, and benefits	(2,351,666)	1,717,889
Estimated third-party payor settlements		129,193
Other liabilities	(3,988,259)	(2,036,581)
Deferred compensation	(1,317,912)	(1,078,285)
NET CASH FROM OPERATING ACTIVITIES	$ 13,624,965	$ 7,304,371
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase (decrease) in capital assets included in accounts payable	$ (5,840,368)	$ 1,149,817
Equipment financed with capital lease obligations		$ 2,772

Note 1 - Organization

Public Hospital District No. 1 of King County, Washington (the District), a Washington municipal corporation established under Chapter 70.44 Revised Code of the State of Washington (RCW), operates Valley Medical Center (the Medical Center). The District is considered a political subdivision of the state of Washington and is allowed, by law, to be its own treasurer. The District has also been granted 501(c)(3) status by the Internal Revenue Service.

The District includes the cities of Kent, Renton, Covington, and portions of Newcastle and Tukwila. It is the first and largest of the 56 public hospital districts in the state of Washington.

The District was established in 1948 by resolution of the Board of County Commissioners and is governed by a five-member Board of Commissioners, each elected by district residents to serve a six-year term. In accordance with the laws of the state of Washington, the Commissioners have delegated day-to-day operations of the District and the Medical Center to the superintendent/CEO.

The Medical Center comprises a hospital, licensed for 303 beds; eight primary care clinics in the South King County area, including a residency program affiliated with the University of Washington Medical School; four urgent care clinics; specialty clinics in neurosurgery, general surgery, vascular surgery, neurology, nephrology, ophthalmology, rheumatology, and internal medicine; an occupational health clinic; and a behavioral health clinic.

The Medical Center does not have any component units (separate governmental entities) within its activities.

Note 2 - Summary of Significant Accounting Policies

Accounting standards - The Medical Center reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB) and the *Audit and Accounting Guide* for health care organizations of the American Institute of Certified Public Accountants.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This and other applicable GASB statements are reflected in the accompanying financial statements (including notes to the financial statements).

Note 2 - Summary of Significant Accounting Policies (continued)

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Guidance is provided relating to the accounting and financial reporting for intangible assets to reduce inconsistencies in reporting and improve comparability among the state and local governments. This statement is effective for periods beginning after June 15, 2009. The Medical Center has not implemented this statement.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. This statement is effective for periods beginning after June 15, 2009. The Medical Center has not implemented this statement.

The Medical Center has also implemented Financial Accounting Standards Codification (FASC) No. 250, *Accounting Changes and Error Corrections*. The statement applies to voluntary changes in existing accounting principles and to new accounting standards that do not specify the transition requirement upon adoption of those standards, as well as corrections of errors.

Except for changes in depreciation methods, this standard requires retrospective application of the new accounting principle to previous periods reported rather than presenting the cumulative effect on the change as of the beginning of the period of the change.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments in GASB's authoritative literature. The requirements of this statement are effective upon issuance and do not result in a change in current practice.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement incorporates into the GASB authoritative literature existing guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. The requirements of this statement are effective upon issuance and do not result in a change in current practice.

The following is a summary of the most significant accounting policies.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

Capital assets - Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The Medical Center's capitalization threshold is $2,500 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Land, buildings, and equipment donated for Medical Center operations are recorded as additions at fair market value at the date of receipt.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association guidelines or based upon facility life analysis performed by an external consultant on the Medical Center's buildings, and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. The estimated useful lives used by the Medical Center are as follows:

Buildings, renovations, and furnishings	5-60 years
Fixed equipment	5-25 years
Movable equipment	3-20 years
Leasehold improvements	Shorter of lease term or useful life

Interest is capitalized on construction projects as a cost of the related project beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. Capitalized interest is depreciated over the estimated useful life of the related asset.

Federal income taxes - The Medical Center, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

Assets limited as to use/investments - Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements, self-insurance reserves (Note 9), and employee deferred compensation agreements (Note 10). In addition, certain funds are restricted by bond indentures to be used solely for debt service (Note 8). These funds are invested in bankers' acceptances, repurchase agreements, obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, and certificates of deposit or money market funds with financial institutions in accordance with state guidelines.

Note 2 - Summary of Significant Accounting Policies (continued)

All Medical Center investments are carried at fair market value except for debt securities purchased within one year of maturity, which are carried at amortized cost. Investment income earned on the proceeds from the revenue and limited tax general obligation bond indenture agreements is reported as other operating revenue. Realized and unrealized investment income or losses on other investments is reported as nonoperating income or expense.

Deferred financing costs - Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method that approximates the effective-interest method.

Cash and cash equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation or by other arrangements under trust agreements.

Patient accounts receivable - The Medical Center's primary credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. The Medical Center manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowance accounts for uncollectible amounts.

Supplies inventory - Supplies inventory, consisting of pharmaceutical, medical-surgical, and other medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value. Obsolete and uninsurable items are written off.

Insurance - The Medical Center pays certain medical, dental, prescription, and vision claims for its employees, as well as workers' compensation and professional liability claims, on a self-insured basis. The Medical Center has purchased stop-loss insurance to cover claims that exceed stated limits and has recorded estimated reserves for the ultimate costs for both reported claims and claims incurred but not reported.

General funds - The Medical Center is required to maintain its financial records on a fund accounting basis that segregates assets, liabilities, revenues, and expenses in conformity with state of Washington municipal corporation laws prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Department of Health in *Accounting and Reporting Manual for Hospitals,* as well as the Board of Commissioners' resolutions. Certain funds maintained separately on the books of the Medical Center have been combined for financial statement presentation.

Operating fund - This fund accounts for current operating assets, liabilities, revenues, and expenses.

Note 2 - Summary of Significant Accounting Policies (continued)

Plant and construction funds - These funds account for land; buildings; equipment; funded depreciation; the proceeds of the 2001, 2004, and 2008 limited tax general obligation bonds; and 1992, 1997, and 1998 series revenue bond principal payments. The District transfers sufficient taxation revenues from the bond redemption fund to make principal payments on the series 2001, 2004, and 2008 bonds. Interest payments are also made from the bond redemption fund.

Bond redemption fund - This fund records tax levies and receipts. Principal and interest payments on the series 2001, 2004, and 2008 bonds are made from this fund.

Restricted funds - These funds are maintained to account for restricted donations, gifts, and bequests received from outside sources for specific purposes.

Operating revenues and expenses - The Medical Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing health care services—the Medical Center's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values. Tax levy income and debt service related to limited general obligation bonds and other peripheral or coincidental transactions are also reported within operations. Operating expenses are all expenses incurred to provide health care services.

Net patient service revenue - Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from governmental agencies, third-party payors, patients, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Reimbursements received from governmental agencies and certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

Charity care - The Medical Center provides care to indigent patients who meet certain criteria under its charity care policies. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Forgone revenue for charity care provided during 2009 and 2008, measured by the Medical Center's standard charges, was $14,124,291 and $8,874,603, respectively.

Note 2 - Summary of Significant Accounting Policies (continued)

Net assets - Net assets of the Medical Center are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* (expendable and nonexpendable) are noncapital assets that must be used for a specific purpose, as specified by grantors or contributors external to the Medical Center. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital, net of related debt* or *restricted.*

Reclassifications - Certain amounts on the December 31, 2008, financial statements have been reclassified to conform to the December 31, 2009, financial statement presentation.

Subsequent events - Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. Note 16 provides disclosure of certain subsequent events that did not result in recognition in the financial statements.

The Company has evaluated subsequent events through April 1, 2010, which is the date the financial statements are available to be issued.

Note 3 - Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from governmental agencies, third-party payors, patients, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with governmental agencies and third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The Medical Center has agreements with governmental agencies and third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Note 3 - Net Patient Service Revenue (continued)

Medicare - Medical Center services rendered to Medicare program beneficiaries are paid at prospectively determined rates, which provide for reimbursement based on Medicare severity adjusted diagnostic related groupings (MS-DRGs). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The majority of Medicare outpatient services are reimbursed under a prospective payment methodology, the Ambulatory Payment Classification system (APC), or fee schedule. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. Net revenue under the Medicare program totaled approximately $89.7 million and $74.2 million for 2009 and 2008, respectively.

Medicaid - On July 1, 2005, a new inpatient Medicaid reimbursement methodology for all noncritical access Washington State governmental hospitals was implemented called "Certified Public Expenditures" (CPE). Under this program, the Medical Center is paid for inpatient Medicaid services based on allowable costs as determined by Medicaid. The estimated costs for inpatient care are calculated as a ratio of cost to charges from a base year (two years before the service year). Under the program, the Medical Center will be reimbursed the higher of the cost of service or "baseline" reimbursement that would have been received based on the inpatient prospective payment system (IPPS) effective prior to when the CPE program was implemented. The Medical Center has recognized revenue equal to the baseline amount. Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the Medical Center's allowable operating expenses to total allowable revenue. The CPE program has been funded by the state Legislature only through the current state biennium (through June 30, 2011).

Net revenue under the Medicaid program totaled approximately $38.3 million and $27.5 million for 2009 and 2008, respectively.

The Medical Center's estimates of final settlements to or from Medicare and Medicaid for all years through 2009 have been recorded in the accompanying balance sheet. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2006.

Other third-party payors - The Medical Center has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

Note 3 - Net Patient Service Revenue (continued)

The following are the components of net patient service revenue for the years ended December 31:

	2009	2008
Gross patient service charges	$ 895,926,103	$ 804,431,607
Adjustments to patient service charges		
Contractual discounts	521,239,308	456,365,508
Provision for bad debts	29,014,974	29,867,693
Charity care	14,124,291	8,874,603
	564,378,573	495,107,804
Net patient service revenue	$ 331,547,530	$ 309,323,803

In addition to the charity amounts reported above (care given without reimbursement or at less than established rates), the Medical Center provided significant services to community residents at little or no cost.

Note 4 - Investments and Deposits

General - Chapter 39.59 RCW authorizes the Medical Center to makes investments in accordance with Washington State law. The Medical Center may, through formal interlocal agreement, invest funds not immediately required for expenditure with the King County Investment Pool (the Pool) and/or the Washington State Treasurer's Local Government Investment Pool (the LGIP), or may separately invest such funds in either actively managed individual portfolio or mutual fund accounts that meet all statutory investment requirements.

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, eligible commercial paper, and repurchase and reverse repurchase agreements. Investments of debt proceeds are governed by the provisions of the debt agreements, which also must meet statutory requirements.

The related required assessed risks for each type of investment are disclosed below.

Note 4 - Investments and Deposits (continued)

At December 31, 2009 and 2008, deposits and investments of the Medical Center consist of the following:

	2009	2008
Unrestricted cash and cash equivalents	$ 27,645,292	$ 35,212,714
Investments		
U.S. Treasury securities and bonds	43,967,237	45,984,934
Membership interest	1,430,093	1,435,690
	45,397,330	47,420,624
Assets whose use is limited		
Cash and cash equivalents	782,632	29,372,652
U.S. Treasury securities and bonds	42,525,173	66,147,224
U.S. Government mutual funds	44,018,256	25,541,520
Deferred compensation plan assets and other	5,922,011	4,717,310
	93,248,072	125,778,706
	$ 166,290,694	$ 208,412,044

Interest income included in other operating revenue totaled $4,088,697 and $4,328,190 for the years ended December 31, 2009 and 2008, respectively.

Investments related to the deferred compensation plan are self-directed by the participant of the plan and include money market funds and other eligible investments as authorized by state law. While the investments are currently in the Medical Center's name, the payment of deferred compensation to the participant will be for the resulting value of the self-directed investments. Therefore, the risk of loss has been transferred to the participant, and deferred compensation plan assets are exempt from risk disclosures.

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 (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (the PDPC).

Membership interest - Similar to other public hospitals, the District is not a shareholder of First Choice Health Network, Inc. (FCHN), but has a contractual agreement with the FCHN that provides for certain rights and obligations equivalent, but not identical, to those of Class B shareholders, including liquidation and dividend rights. The capital contributions of the nonshareholders are recorded as paid-in capital from affiliates. These contractual agreements are considered to be common share equivalents.

Note 4 - Investments and Deposits (continued)

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Medical Center follows state statute, which provides that commercial paper, negotiable certificates of deposit, and banker's acceptances must be rated at least A-1 by Standard and Poor's (S&P) and P-1 by Moody's Investor's Services, Inc., and fixed income holdings are limited to securities that are issued by or fully guaranteed by the U.S. Treasury, U.S. Government-Sponsored Enterprises, or U.S. Government Agencies, including U.S. Government Agency Mortgage-Backed Securities. Money market funds are limited to those with an average credit quality of AAA by S&P.

According to GASB Statement No. 40, unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

As of December 31, 2009, the Medical Center's investment in the Pool was not rated by a NRSRO. In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency and mortgage-backed securities, municipal securities (rated at least A by two NRSROs), commercial paper (rated at least the equivalent of A-1 by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the LGIP managed by the Washington State Treasurer's office.

As of December 31, 2009, all impaired commercial paper investments have completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities, as well as the residual investments in four commercial paper assets that were part of completed enforcement events where the Impaired Pool accepted the cash out option. The Medical Center's share of the Impaired Pool principle is $448,983 and the Medical Center's fair value of these investments is $165,159.

Note 4 - Investments and Deposits (continued)

The composition of investments, valued at fair market by investment type and rating at December 31, 2009, is as follows:

Investment Type	Fair Value	Ratings	% of Totals
Money market mutual fund	$ 19,116,146	AAA	12.16%
U.S. Treasury securities	19,504,551	Exempt from disclosure	12.40%
U.S. Agency bonds	64,939,946	AAA	41.30%
U.S. Agency mortgage	2,047,913	AAA	1.30%
U.S. Government mutual fund	44,018,256	AAA	28.00%
King County Investment Pool	2,743,896	Exempt from disclosure	1.75%
State (LGIP) Investment Pool	23,661	Exempt from disclosure	0.02%
Deferred comp plan assets	3,410,680	Exempt from disclosure	2.17%
Membership interest	1,430,093	Not rated	0.91%
Total	$ 157,235,142		100.00%

Concentration of credit risk - Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

There are no investments exceeding 5% of total investments that are with any one issuer other than the U.S. Treasury, U.S. Agency, or U.S. Government-sponsored entities. As of December 31, 2009, for those investments that require composition disclosure, the Medical Center holds investments in U.S. Government-sponsored entities totaling 9% of its total investments in Federal National Mortgage Association securities, 46% of its total investments in Federal Home Loan Mortgage Corporation securities, 26% of its total investments in Federal Home Loan Bank securities, and 19% in Federal Farm Bureau securities.

Custodial credit risk - Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Medical Center will not be able to recover the value of the investment or collateral securities that are in possession of the Medical Center.

With respect to investments, custodial credit risk generally applies only to direct investments of marketable securities. Custodial credit risk typically does not apply to the Medical Center's indirect investments in securities through the use of mutual funds or governmental investment pools (such as the Pool and LGIP).

Note 4 - Investments and Deposits (continued)

In the individually managed portfolios (which include bond proceeds), the Medical Center's securities are registered in the Medical Center's name by the custodial bank as an agent for the Medical Center.

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. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

One of the ways the Medical Center manages its exposure to interest rate risk is by purchasing a combination of shorter- and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide cash flow and liquidity needed for operations.

The Medical Center further manages interest rate risk by constraining the average maturity of securities to five years or less, as required by state statute.

The Medical Center's investments in a U.S. Government mutual fund had a weighted-average duration of 2.4 years at December 31, 2009.

As of December 31, 2009, the Pool's average duration was .68 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted-average life, of no longer than five years. Although the Pool's market value is calculated on a monthly basis, unrealized gains or losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

The LGIP is an unrated 2a-7 pool, as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Accordingly, the Medical Center's balances in the LGIP are not subject to interest rate risk, as the weighted-average maturity of the portfolio will not exceed 90 days. At December 31, 2009, the weighted-average maturity was 63 days.

Note 4 - Investments and Deposits (continued)

Information about the sensitivity of the fair values of the Medical Center's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table, which shows the distribution of the Medical Center's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type	Fair Value	12 Months or Less	13 to 24 Months	25 to 48 Months	More Than 48 Months
Money market mutual fund	$ 19,116,146	$ 19,116,146			
U.S. Treasuries	19,504,551	1,033,221	$ 6,303,448	$ 12,167,882	
U.S. Agencies	64,939,946	26,425,507	17,793,774	20,720,665	
Tax exempt issues	2,047,913	2,047,913			
U.S. Government mutual fund	44,018,256	62,584		43,955,672	
King County Investment Pool	2,743,896	2,743,896			
State Investment Pool	23,661	23,661			
Deferred compensation plan assets	3,410,680			3,410,680	
Membership interest	1,430,093				$ 1,430,093
	$ 157,235,142	$ 51,452,928	$ 24,097,222	$ 80,254,899	$ 1,430,093

Note 5 - Property Tax Revenues

The county treasurer acts as an agent to collect property taxes in the county for all taxing authorities. Taxes are levied annually on January 1 on property values 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. Funds are distributed monthly to the District by the county treasurer as collected.

The District is permitted by law to levy up to $0.75 per $1,000 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. Greater amounts of tax, above the limit, need to be for a specific capital project and authorized by the vote of the people.

For 2008, the District's authorized regular tax levy was $.59 per $1,000 on a total assessed valuation of $36,700,867,291. The actual levy rate for 2009 was $.49 per $1,000 for a total regular levy of $18,666,255.

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

Note 6 - Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2009 and 2008, were as follows:

	Beginning Balance January 1, 2009	Additions	Retirements	Account Transfers	Ending Balance December 31, 2009
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 8,286,029				$ 8,286,029
Construction in progress	97,399,006	$ 59,861,811		$ (13,574,010)	143,686,807
Total nondepreciable capital assets	105,685,035	59,861,811		(13,574,010)	151,972,836
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,036,907			6,766	11,043,673
Buildings and leasehold improvements	232,470,850	1,076,869		6,182,652	239,730,371
Equipment					
Fixed	26,463,011			209,764	26,672,775
Major movable	106,141,135	1,632,996	$ (1,340,475)	6,988,635	113,422,291
Minor	9,576,587	13,427	(116,620)	186,193	9,659,587
LESS ACCUMULATED DEPRECIATION					
Land improvements	(8,958,997)	(258,794)			(9,217,791)
Buildings and leasehold improvements	(83,920,096)	(8,858,914)			(92,779,010)
Equipment					
Fixed	(19,132,760)	(718,648)			(19,851,408)
Major movable	(68,789,436)	(11,562,695)	1,340,475		(79,011,656)
Minor	(4,874,011)	(748,153)	116,620		(5,505,544)
Depreciable capital assets, net	200,013,190	(19,423,912)	-	13,574,010	194,163,288
Capital assets, net	$ 305,698,225	$ 40,437,899	$ -	$ -	$ 346,136,124

Note 6 - Capital Assets (continued)

	Beginning Balance January 1, 2008	Additions	Retirements	Account Transfers	Ending Balance December 31, 2008
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 8,286,029				$ 8,286,029
Construction in progress	46,548,547	$ 91,454,860		$ (40,604,401)	97,399,006
Total nondepreciable capital assets	54,834,576	91,454,860		(40,604,401)	105,685,035
DEPRECIABLE CAPITAL ASSETS					
Land improvements	10,797,630			239,277	11,036,907
Buildings and leasehold improvements	201,531,609	6,272,648		24,666,593	232,470,850
Equipment					
Fixed	24,857,227	10,695		1,595,089	26,463,011
Major movable	93,047,497	1,513,961	$ (1,834,114)	13,413,791	106,141,135
Minor	8,522,832	364,104		689,651	9,576,587
LESS ACCUMULATED DEPRECIATION					
Land improvements	(8,692,135)	(266,862)			(8,958,997)
Buildings and leasehold improvements	(75,762,242)	(8,157,854)			(83,920,096)
Equipment					
Fixed	(18,107,076)	(1,025,684)			(19,132,760)
Major movable	(60,379,157)	(10,244,393)	1,834,114		(68,789,436)
Minor	(4,135,734)	(738,277)			(4,874,011)
Depreciable capital assets, net	171,680,451	(12,271,662)	-	40,604,401	200,013,190
Capital assets, net	$ 226,515,027	$ 79,183,198	$ -	$ -	$ 305,698,225

The Medical Center capitalized interest costs of $7,791,643 and $8,042,064 during the years ended December 31, 2009 and 2008, respectively. The Medical Center also capitalized interest income of $454,877 and $3,574,196 during the years ended December 31, 2009 and 2008, respectively.

Property and equipment also includes certain capitalized labor incurred to ready such property and equipment for use.

Depreciation expense of operating assets for the years ended December 31, 2009 and 2008, was $21,721,172 and $19,981,900, respectively.

Included in major movable equipment at December 31, 2009 and 2008, is $5,751,755 and $6,250,677, respectively, of equipment under capital lease. Accumulated amortization of the equipment under capital lease totaling $5,203,844 and $4,670,589 is included in accumulated depreciation at December 31, 2009 and 2008, respectively.

Note 6 - Capital Assets (continued)

During the years ended December 31, 2009 and 2008, the Medical Center retired approximately $1,457,000 and $1,834,000, respectively, of various land improvements, buildings, and equipment that were no longer in use.

Note 7 - Investment in Affiliate

Imaging Partners at Valley, LLC (IPV) - The Medical Center has an investment with a local radiology group for the purpose of providing inpatient and outpatient magnetic resonance imaging and other such imaging services through a limited liability company to individuals within the community. The Medical Center has an 80% interest in this joint venture at December 31, 2009 and 2008, which is accounted for using the equity method of accounting. For the years ended December 31, 2009 and 2008, the Medical Center recognized $4,311,848 and $4,434,557, respectively, of other operating revenue for its share of net income earned by IPV. Additionally, the Medical Center received cash distributions of $4,397,003 and $5,392,397, respectively, from IPV for the years ended December 31, 2009 and 2008. The Medical Center's recorded investment in IPV was $1,744,814 and $1,952,532, as of December 31, 2009 and 2008, respectively, and is included in investment in affiliate in the Medical Center's financial statements.

The following represents the summary financial information of IPV as of December 31:

	2009	2008
Cash and cash equivalents	$ 1,027,466	$ 1,311,045
Other current assets	1,663,809	1,786,384
Property, plant, and equipment, net	543,778	1,702,071
	$ 3,235,053	$ 4,799,500
Current liabilities	$ 1,410,060	$ 2,576,778
Long-term liabilities, net		291,287
Equity	1,824,993	1,931,435
	$ 3,235,053	$ 4,799,500
Revenues	$ 15,955,088	$ 15,987,830
Expenses	(10,524,237)	(10,195,547)
Net income	$ 5,430,851	$ 5,792,283

For more information on IPV, or to obtain financial statement information, please contact the administration of the Medical Center.

Note 7 - Investment in Affiliate (continued)

Alliance agreements - The Medical Center entered into a 10-year joint venture with Swedish Heart Institute in 1999 to collectively operate and manage the delivery of certain cardiovascular health care services to residents of South King County. Through this agreement, the two parties jointly fund, coordinate, and participate in administrative activities, delivery of specific patient services, and the undertaking of other activities to improve the access, efficiency, and quality of cardiovascular disease-related services. Financial risks and rewards are shared between the two parties in proportion to the sharing percentages from the provision of services provided to residents of the region. The Medical Center's share is 48%, which is accounted for using the equity method of accounting. For the years ended December 31, 2009 and 2008, the Medical Center recorded gains of $581,761 and $250,000, respectively, related to this joint venture, which is included in other operating revenue.

The Medical Center also has an agreement with Swedish Health Services related to radiation oncology services under the name Valley Medical Center Radiation Oncology. This agreement is renewable annually. Through this agreement, Swedish provides specific management services, including supervision and oversight of the technical staff within the radiation oncology department. Swedish receives, as compensation for its specific management services, a management fee based upon the level of income, not to exceed 24% of the net department margin and a contractually agreed "ceiling" amount. For the years ended December 31, 2009 and 2008, the Medical Center had net income prior to management fees of $3,244,148 and $2,987,355, respectively, related to this program, which is included in operating income.

Note 8 - Long-Term Debt and Capital Lease Obligations

The District refunded, on a current basis, both its 2005 revenue bonds and 2006 limited tax general obligation bonds in March 2008 into fixed rate series 2008A and 2008B limited tax general obligation bonds.

	2009	2008
Limited tax general obligation bonds		
2008 series A and B, 4.0% to 5.25%, due serially in December, in amounts from $1,185,000 in 2011 to $17,365,000 in 2037, plus interest due semi-annually, net of unamortized premiums of $1,662,635 and $1,722,192 and unamortized loss on refinancing of $3,049,923 and $3,167,083.	$ 216,832,712	$ 216,775,109
2001 series, 4.25% to 5.5%, due serially in December, in amounts from $2,200,000 in 2010 to $5,995,000 in 2021, plus interest due semi-annually, net of unamortized premiums of $172,510 and $186,986.	39,627,510	41,456,986

Note 8 - Long-Term Debt and Capital Lease Obligations (continued)

	2009	2008
2004 series, 3.75% to 4.25%, due serially in December, in amounts from $575,000 in 2010 to $1,260,000 in 2017, plus interest due semi-annually, net of unamortized premiums of $163,974 and $184,685 and unamortized loss on refinance of $369,260 and $417,425.	8,229,714	8,202,260
Revenue bonds		
1998 series, 4.75% to 5.75%, due serially in September, in amounts from $1,200,000 in 2010 to $3,565,000 in 2020, plus interest due semi-annually, net of unamortized premiums of $577,569 and $631,814 and unamortized loss on refinance of $586,846 and $641,014.	19,770,813	20,915,800
1997 series, 5.25%, due serially in September, in amounts from $2,060,000 in 2010 to $2,660,000 in 2015, plus interest due semi-annually, net of unamortized discount of $51,451 and $60,531 and unamortized loss on refinance of $665,738 and $781,514.	13,372,811	15,187,955
1992 series, paid off in 2009.		786,816
Long-term debt	297,833,560	303,324,926
Capital lease obligations, stated at present value of future minimum lease payments	579,640	1,717,042
	298,413,200	305,041,968
Less current portion	(6,461,028)	(6,837,255)
Long-term portion of debt and capital lease obligations	$ 291,952,172	$ 298,204,713

Under the terms of its financing agreements, the District has agreed to maintain certain financial ratios and meet certain covenants. Financing covenants associated with the District's revenue bonds require that net income available for debt service (as defined in the financing agreement) be equal to or greater than 125% of maximum annual debt service; set limits of encumbrances, indebtedness, disposition of assets, and transfer services; and maintain certain other financial covenants. Management is not aware of any violations with its debt covenants.

Note 8 - Long-Term Debt and Capital Lease Obligations (continued)

2008 bond issue - On February 13, 2008, the nationwide auction rate securities market experienced a historic dislocation previously unseen in the financial marketplace. The District had $170 million in auction rate securities—$65 million in the 2005 revenue series A and B bonds and $105 million in the 2006 limited tax general obligation series A and B bonds. Those bonds had been trading on a seven-day auction period with an average 3.75% variable interest rate. The dislocation in the market resulted in default interest rates as high as 15%.

Pursuant to resolution 870 adopted by the District's Board of Commissioners in December 2007, as amended by resolution 875, adopted by the board on February 19, 2008, both the 2005 and 2006 bond series were refunded, on a current basis, from variable rate auction securities to 30-year fixed rate debt in the form of limited tax general obligation and refunding bonds, series 2008A and 2008B. In addition, the District issued $50 million in new LTGO debt to fund certain District capital projects, including completion of the South Tower project.

The refunding resulted in the recognition of an accounting loss of $3,265,368 for the year ended December 31, 2008, which will be deferred and amortized over the life of the new bonds. The refunding increased the Medical Center's aggregate debt service payments by $57,765,000 over the next 30 years and resulted in an economic loss (difference between the present values of the old and new debt service payments) of $7,596,000.

As part of the current refunding of the 2006 series, the interest rate swaps associated with the 2006 LTGO series A and B terminated, resulting in the District's payment of termination fees of $5.1 million to the counterparty.

In total, the District issued $218,220,000 in limited tax general obligation and refunding bonds, series 2008A and 2008B, in March 2008.

Series 2008A is for $113,315,000 and comprises $97,745,000 5.0%-5.25% term bonds maturing beginning with $14,730,000 maturing in 2023 to $59,725,000 5.0% bonds maturing in 2037. $15,570,000 of this subseries is in 4.0%-5.0% serial bonds, which mature for eight consecutive years beginning in 2011. Series 2008A is insured.

Series 2008B is for $104,905,000 5.25% term bonds, beginning with $8,920,000 maturing in 2023 to $69,260,000 maturing in 2037. Series 2008B is uninsured.

The District has pledged tax revenues to secure the bonds.

2006 limited tax general obligation interest rate exchange (swap) - With respect to both 2006 subseries, the District entered in an interest rate swap transaction with a certain counterparty who meets statutory requirements, as is permitted by RCW Chapter 39.96.

The interest rate swaps related to the 2006 LTGO series were terminated when the 2006 series was refunded in March 2008.

Note 8 - Long-Term Debt and Capital Lease Obligations (continued)

Other interest rate exchanges (swaps) - Three interest rate exchange (swap) agreements were unwound in early January 2008 for a gain of $640,000. The Medical Center no longer has any outstanding interest rate swaps.

Risks associated with the swap agreements - On December 31, 2009, the District no longer had any outstanding swap agreement. From the District's perspective, however, the following risks are generally associated with swap agreements:

Credit risk - The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or the Medical Center below statutorily prescribed levels, such party will comply with the collateralization requirements specified in RCW Chapter 39.96.

Basis risk - For both the 2006 limited tax general obligation bonds and the 2005 revenue bonds, the variable interest rate paid by the counterparty under the swap and the fixed rate paid by the Medical Center on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the fixed interest rate, then the counterparty's payment under the swap agreement does not fully reimburse the Medical Center for its interest payment on the associated bonds. Conversely, if the fixed interest rate is lower than the variable rate, there is a net benefit to the Medical Center.

For the three interest rate exchange swaps related to the 1992, 1997, and 1998 bond series, the variable interest rate paid by the Medical Center under the swap and the fixed rate paid by the counterparty may not be the same. As the SIFMA Municipal Swap Index increases, the Medical Center's exposure to variable interest rates increases and, consequently, the synthetic floating rate to fixed swaps decreases in value.

The Medical Center uses an external financial advisor experienced in swap arrangements to assist in monitoring the Medical Center's risk to changing interest rates.

Termination risk - The Medical Center or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If, at the time of the termination, the swap has a negative fair value, the Medical Center would be liable to the counterparty for that payment.

Note 8 - Long-Term Debt and Capital Lease Obligations (continued)

Long-term debt and capital lease obligations activity summary for 2009 and 2008 is as follows:

	Beginning Balance January 1, 2009	Additions	Reductions	Ending Balance December 31, 2009	Amounts Due Within One Year
Limited tax general obligation bonds					
2008 series	$ 216,775,109	$ -	$ (57,603)	$ 216,832,712	
2004 series	8,202,260		(27,454)	8,229,714	$ 575,000
2001 series	41,456,986		1,829,476	39,627,510	2,200,000
Revenue bonds					
1998 series	20,915,800		1,144,987	19,770,813	1,200,000
1997 series	15,187,955		1,815,144	13,372,811	2,060,000
1992 series	786,816		786,816		
Capital lease obligations	1,717,042		1,137,402	579,640	426,028
Total long-term debt and capital lease obligations	305,041,968		6,628,768	298,413,200	6,461,028
Deferred compensation	3,754,443		1,317,912	2,436,531	
Total noncurrent liabilities	$ 308,796,411	$ -	$ 7,946,680	$ 300,849,731	$ 6,461,028

	Beginning Balance January 1, 2008	Additions	Reductions	Ending Balance December 31, 2008	Amounts Due Within One Year
Limited tax general obligation bonds					
2008 series		$ 216,726,786	$ (48,323)	$ 216,775,109	
2005 series	$ 105,000,000		105,000,000		
2004 series	8,174,805		(27,455)	8,202,260	
2001 series	42,926,463		1,469,477	41,456,986	$ 1,815,000
Revenue bonds					
2005 series	65,000,000		65,000,000		
1998 series	22,015,788		1,099,988	20,915,800	1,145,000
1997 series	16,908,099		1,720,144	15,187,955	1,940,000
1992 series	1,512,043		725,227	786,816	810,000
Capital lease obligations	2,863,611	2,772	1,149,341	1,717,042	1,127,255
Total long-term debt and capital lease obligations	264,400,809	216,729,558	176,088,399	305,041,968	6,837,255
Deferred compensation	4,832,728		1,078,285	3,754,443	
Total noncurrent liabilities	$ 269,233,537	$ 216,729,558	$ 177,166,684	$ 308,796,411	$ 6,837,255

Note 8 - Long-Term Debt and Capital Lease Obligations (continued)

A summary of future maturities on long-term debt for the next five years and thereafter, as of December 31, 2009, using the new fixed interest rate, for both principal and interest, is presented below:

	Principal	Interest
2010	$ 6,035,000	$ 15,399,807
2011	8,235,000	15,118,157
2012	8,615,000	14,742,400
2013	7,660,000	14,312,826
2014	8,055,000	13,918,813
Amounts due 2015 - 2019	47,020,000	63,068,664
Amounts due 2020 - 2024	44,365,000	50,680,838
Amounts due 2025 - 2029	52,645,000	38,631,850
Amounts due 2030 - 2034	67,760,000	23,515,650
Amounts due 2035 - 2037	49,590,000	5,177,550
	299,980,000	$ 254,566,555
Plus amount representing net unamortized bond discounts and premiums	2,525,327	
Less amount representing unamortized losses on refinancings	(4,671,767)	
	$ 297,833,560	

Capital leases - The Medical Center acquired certain equipment under capital lease obligations. The imputed interest rate on the equipment under capital lease is 6.4%. These leases are collateralized by the related equipment. Future minimum lease payments and the present value of net minimum lease payments are as follows:

2010	$ 470,316
2011	113,303
2012	56,423
2013	107
Total minimum lease payments	640,149
Less amount representing interest	(60,509)
Present value of capital lease payments	579,640
Less current portion	(426,028)
	$ 153,612

Line of credit - The Medical Center has a $2.0 million line of credit with its banking institution. The line of credit was unused during 2009 and 2008, and there was no outstanding balance as of December 31, 2009 or 2008.

Note 9 - Professional Liability Claims

The Medical Center purchases insurance from a third-party insurance carrier, who in 2005 assumed the then-existing self-insurance program that insured certain claims on both a retrospective and prospective basis. Insurance limits are $2,000,000 per claim with an $8,500,000 annual aggregate. The Medical Center also maintains excess commercial insurance on a claims-made basis with a limit of liability of $25,000,000 per occurrence and $25,000,000 annual aggregate.

Settlement amounts have not exceeded insurance coverage in the last three years.

Note 10 - Retirement Plans

The Medical Center maintains a defined contribution plan, the Money Purchase Pension Plan, that covers substantially all of its employees. The plan is administered by the Medical Center. The Medical Center's contribution is based on the salaries of active participants in accordance with formulas specified in the plan. Plan provisions and contribution requirements are established by the Medical Center and may be amended by the Medical Center's Board of Commissioners. Actuarial assumptions are not used in the determination of costs because benefits are payable only to the extent of available assets derived from contributions and plan earnings.

Employer contributions to the plan were $9,903,799 and $8,987,508 for the years ended December 31, 2009 and 2008, respectively. Employee contributions are permitted within the plan in an amount up to 10% of pay period earnings, capped at the annual amount allowed by federal law, and totaled $492,075 and $509,293 for the years ended December 31, 2009 and 2008, respectively.

The Medical Center offers its employees two deferred compensation plans created in accordance with Internal Revenue Code (IRC) Sections 403(b) and 457. The plans, available to all employees, permit them to defer a portion of their salary until future years. Employee contributions to the plans totaled $5,514,124 and $5,209,704 for the years ended December 31, 2009 and 2008, respectively. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

It is the opinion of internal legal counsel that the Medical Center has no uninsured liability for losses under the plans. Under both plans, the participants select investments from alternatives offered by the plans, and the funds are held in trust/custodial accounts with the custodians, who are under contract with the Medical Center to manage the plans. Investment selection by a participant may be changed each pay period. The Medical Center manages none of the investment selections. By making the selections, enrollees accept and assume all risks that pertain to the plan and its administration.

In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* the Medical Center placed the deferred compensation plan assets of the plans into a trust for the exclusive benefit of plan participants and beneficiaries.

Note 10 - Retirement Plans (continued)

The Medical Center has limited administrative involvement and does not perform the investing function for either plan, as each plan has an investment advisor. The Medical Center does not hold the assets of either plan in a trustee capacity and does not perform fiduciary accountability for the plan.

Note 11 - Charity Care and Community Benefits

The Medical Center provides care without charge, or at reduced charges, to patients who meet certain criteria under its charity care policy. Records are maintained to identify and monitor the level of charity care provided. The Medical Center does not pursue collection of the amounts determined to qualify as charity care, and such amounts are not reported as revenue. The costs of the services and supplies furnished under the Medical Center's charity care policy, as measured by the Medical Center's standard charges, totaled $14.1 million in 2009 and $8.9 million in 2008.

The Medical Center provides many other health and educational activities for the benefit of the community. These benefits go beyond uncompensated services and would include classes, educational materials, graduate medical education programs, health fairs and screenings, and other community-based events.

Note 12 - Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 was as follows:

	2009	2008
Medicare	24%	20%
Medicaid	14%	13%
Blue Shield/Regence	11%	13%
PPO/First Choice	8%	7%
Blue Cross/Premera	7%	6%
Patient	12%	18%
Commercial	10%	10%
Other third-party payors	14%	13%
	100%	100%

Note 13 - Commitments and Contingencies

Operating leases - The District leases certain facilities and equipment under operating lease arrangements, some of which contain renewal options. The following is a schedule by year of future minimum lease payments as of December 31, 2009:

2010	$ 11,005,000
2011	11,493,000
2012	11,155,000
2013	10,462,000
2014	8,720,000
Thereafter	3,662,000
Total minimum lease payments	$ 56,497,000

Rent expense on operating leases for 2009 and 2008 was $8,977,000 and $7,994,000, respectively.

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

Compliance with laws and regulations - The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management, to the best of their knowledge, believes that the Medical Center is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

Note 13 - Commitments and Contingencies (continued)

Construction and information technology commitments - The Medical Center has committed to various remodel projects and further information technology implementations and upgrades to be completed during calendar years 2007 and beyond. As of December 31, 2009, the future commitments for these projects total $29.9 million.

Collective bargaining agreements - The Medical Center has a total of approximately 2,600 employees. Of this total, approximately 73% are covered under one of the Medical Center's collective bargaining agreements as of December 31, 2009.

Note 14 - Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and short-term investments - The carrying amount approximates the fair value because of the short maturity of those instruments.

Long-term investments - The carrying amount approximates the fair values of investments. The fair values are estimated based on quoted market prices for those or similar investments.

Long-term debt - The Medical Center is not able to estimate the fair value of its long-term debt because there is little or no trading of its bonds in secondary markets to establish a current fair value.

Note 15 - Pledged Tax Revenues

The District has pledged its future tax revenues, as well as operating revenues, to repay its limited tax general obligation and revenue bonds issued in 1992, 1997, 1998, 2001, 2004, and 2008 to finance construction, other capital improvements, medical equipment and technology, and information technology systems.

Note 16 - Subsequent Event

In January 2010, the Medical Center paid an earnest money deposit on land in the southeast portion of the Medical Center's District, with the intent of purchasing several parcels of land upon which to further build medical facilities in 2010 and beyond.