



**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of
Public Hospital District No. 1,
Snohomish County, Washington
dba Valley General Hospital

We have audited the balance sheet of Public Hospital District No. 1, Snohomish County, Washington (a municipal corporation), dba Valley General Hospital, as of December 31, 2008 and 2007, 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, Snohomish County, Washington, dba Valley General Hospital, as of December 31, 2008 and 2007, 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 8 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.



Everett, Washington
April 10, 2009

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Public Hospital District No. 1, Snohomish County, Washington (the District), doing business as Valley General Hospital (the Hospital) financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2008 and 2007. Please read it in conjunction with the District's financial statements, which follow this analysis. Unless otherwise indicated, dollar amounts are in thousands.

Financial Highlights

- The District's net assets increased in 2008 after posting a decrease in 2007 and an increase in 2006. Net assets increased \$25, or less than 0.1 percent, in 2008; decreased \$738, or 4.0 percent, in 2007; and increased \$1,353, or 7.8 percent, in 2006.
- The District reported an operating loss of \$960 in 2008, an operating loss of \$1,904 in 2007, and an operating gain of \$47 in 2006. The 2008 operating loss decreased by \$944, or 49.6 percent, from the 2007 operating loss. In 2007, the operating loss increased by \$1,951 from the 2006 gain. In 2006, the gains increased by \$1,944, or 102.5 percent, from the 2005 operating loss.
- Nonoperating income decreased by \$253, or 21.9 percent, in 2008 compared to 2007; decreased by \$44, or 3.7 percent, in 2007 compared to 2006; and increased \$348, or 40.9 percent, in 2006 compared to 2005.

The District's financial statements consist of three statements—a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the Hospital but restricted for specific purposes by enabling legislation.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

In analysis of its finances, one of the most important questions asked about the District is, "Is the District as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the District.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

The Hospital District's Balance Sheet

The following is a presentation of certain financial information derived from the District's Balance Sheet (in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets	\$ 9,759	\$ 8,966	\$ 9,864
Capital assets, net	25,763	22,705	20,098
Other noncurrent assets	<u>3,618</u>	<u>9,626</u>	<u>10,344</u>
Total assets	<u>\$ 39,140</u>	<u>\$ 41,297</u>	<u>\$ 40,306</u>
LIABILITIES			
Long-term debt outstanding	\$ 15,647	\$ 18,067	\$ 16,556
Other current and noncurrent liabilities	<u>5,559</u>	<u>5,321</u>	<u>5,103</u>
Total liabilities	<u>21,206</u>	<u>23,388</u>	<u>21,659</u>
NET ASSETS			
Invested in capital, net	11,418	9,131	3,542
Restricted for debt service	1,300	1,454	1,446
Unrestricted	<u>5,216</u>	<u>7,324</u>	<u>13,659</u>
Total net assets	<u>17,934</u>	<u>17,909</u>	<u>18,647</u>
Total liabilities and net assets	<u>\$ 39,140</u>	<u>\$ 41,297</u>	<u>\$ 40,306</u>

In 2008, the net capital assets increased by \$3,058 (13.5 percent). In addition to routine capital equipment replacement, the District continued a multi-year installation of a hospital-wide information technology update, which began in late 2006. The Hospital also invested in construction and renovation to its Emergency Room Outpatient Waiting areas, Pharmacy, and various support functions and developed a Wound Healing Center.

In 2007, the net capital assets increased by \$2,607 (13.0 percent). In addition to routine capital equipment replacement, the District began the multi-year installation of a hospital-wide information technology update in late 2006. Construction and purchase of a new CAT scan and nuclear medicine camera were completed in early 2007. The Hospital also began planning for improvements to its Emergency Room and various support functions.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The Hospital District's Balance Sheet (continued)

In 2006, the net capital assets increased by \$281 (1.4 percent). In addition to routine capital equipment replacement, the District also replaced the cardiac monitoring system with the assistance of restricted donations from the Valley General Hospital Foundation.

A funded escrow account was set up near the end of 2006, with funds designated to the Information Technology project and the purchase and installation of the CAT scan. An additional funded escrow account was established in 2007 for the renovation projects.

Operating Results and Changes in the Hospital's Net Assets

The District reported an operating loss of \$960 during 2008, which followed an operating loss of \$1,904 during 2007, and an operating income of \$47 during 2006. The following is a presentation of certain financial information derived from the District's Statement of Revenues, Expenses, and Changes in Net Assets (in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
OPERATING REVENUES			
Net patient service revenue	\$ 45,126	\$ 40,805	\$ 40,281
Revenue from tax levies for maintenance and operations	449	463	373
Other operating revenues	<u>368</u>	<u>397</u>	<u>416</u>
Total operating revenues	<u>45,943</u>	<u>41,665</u>	<u>41,070</u>
OPERATING EXPENSES			
Salaries and benefits	28,691	27,002	25,109
Supplies and other	9,309	8,323	8,513
Purchased services	6,503	5,996	5,274
Depreciation	<u>2,400</u>	<u>2,248</u>	<u>2,127</u>
Total operating expenses	<u>46,903</u>	<u>43,569</u>	<u>41,023</u>
Operating income (loss)	(960)	(1,904)	47
NONOPERATING INCOME (EXPENSE)			
Revenue from tax levies for debt service	1,474	1,609	1,627
Interest expense	(514)	(579)	(646)
Interest income	147	350	387
Loss on sale of capital assets	(3)	(40)	(52)
Other expense, net	<u>(203)</u>	<u>(186)</u>	<u>(118)</u>
CONTRIBUTION FOR CAPITAL PURCHASES	<u>84</u>	<u>12</u>	<u>108</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 25</u>	<u>\$ (738)</u>	<u>\$ 1,353</u>
NET ASSETS, end of year	<u>\$ 17,934</u>	<u>\$ 17,909</u>	<u>\$ 18,647</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Operating Gains and Losses

A major component of the overall change in the District's net assets is its operating income or loss, which is, generally, the difference between net patient service revenues and the expenses incurred to perform those services. The District reported an operating loss of \$960 during 2008, an operating loss of \$1,904 during 2007, and an operating income of \$47 during 2006. The District's operations began in 1960 as a municipal hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the County's lower-income residents.

The primary components of the increases or decreases in operating expenses are:

- Increases in salary and benefit costs for the hospital's employees of \$1,689, or 6.3 percent, in 2008; \$1,893, or 7.5 percent, in 2007; and \$2,079, or 9.0 percent, in 2006.
- Increases in overall supply costs of \$466, or 9.5 percent; following decreases in medical supply and drug costs of \$585, or 10.7 percent, in 2007; and increases of \$151, or 2.8 percent, in 2006.
- Decreases in professional liability costs of \$92, or 11.0 percent, in 2008, decreases of \$6, or 0.7 percent, in 2007, following increases of \$141, or 20.2 percent, in 2006.
- Decrease in the level of uncompensated care in 2008 compared to an increase experienced in 2007. These are services provided for which there is no expectation of payment.
- Increases in rents and leases of \$431, or 36.8 percent, in 2008; \$311, or 36.2 percent, in 2007; and \$276, or 47.3 percent, in 2006.
- Increases in depreciation expenses of \$152, or 6.8 percent, in 2008; \$121, or 5.7 percent, in 2007; and \$413, or 24.1 percent, in 2006.
- Increases in agency and consulting costs of \$547, or 25.8 percent, in 2008; \$646, or 43.9 percent, in 2007; and decreases of \$258, or 14.9 percent, in 2006.

Employee salary and benefits costs increased each year since 2005 based on rates established in labor contracts negotiated in 2006, 2007, and 2008. Current labor contracts for the District's unionized employees extend until 2009 and 2011. In September of 2007, a second internal medicine physician was added to the Internal Medicine Clinic.

Supply costs included patient chargeable supplies and implants, which were down \$105, or 6.9 percent, between 2007 and 2008; and \$793, or 34.2 percent, between 2006 and 2007. Pharmaceutical supplies increased \$74, or 8.0 percent, between 2007 and 2008, following a decrease of \$66, or 6.7 percent, between 2006 and 2007. The cost of supplies used in the Nuclear Medicine increased \$83, or 145.3 percent between 2007 and 2008, as the program was brought in-house in mid-2007. The cost of dietary supplies increased \$132, or 35.1 percent, between 2007 and 2008 to support menu changes.

In December 2007, the Hospital began leasing space for an expanded Chemical Dependency Treatment Service with a lease cost of \$59 in 2007 and an annual lease cost of \$402 in 2008. In August 2005, the hospital completed tenant improvements in a physician-owned building and began leasing space. The hospital leased space for the full year of 2006, resulting in an increase of \$276, or 47.3 percent, between 2005 and 2006.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Operating Gains and Losses (continued)

Additionally, a new general surgeon and orthopedic surgeon were added to the medical staff in September 2007. These physicians were provided with guarantees in the form of loans to assist in their recruitment. In December 2007, an orthopedic surgeon, who had not been active since June 2007, resigned from the medical staff.

The District provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the District when it was established in 1960. The level of services provided to these patients decreased by \$519, or 10.4 percent, between 2007 and 2008, following an increase of \$1,463, or 41.5 percent, between 2006 and 2007. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the District.

Other uncompensated care, bad debts, increased by \$1,594, or 130.0 percent, between 2007 and 2008; and increased by \$414, or 51.0 percent, between 2006 and 2007.

Other operating expenses include an increase in consulting and agency costs of \$547, or 25.8 percent, between 2007 and 2008. The Hospital filled three management positions with contracted management services during 2007. The Hospital also used legal counsel to assist in negotiating employment contracts and other legal matters. Consulting and agency costs increased \$646, or 43.9 percent, between 2006 and 2007. Purchased services decreased \$39, or 1.0 percent overall, between 2007 and 2008. While medical purchases decreased, repair and maintenance on new equipment costs of billing office and medical records increased. Between 2006 and 2007, purchased services increased \$100, or 18.0 percent, in Nuclear Medicine and \$132, or 48.0 percent, in direct patient care.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, interest income, and interest expense. The voters of the hospital district approved no changes to the standing levy or additional bonds during 2008 and 2007. The current regular levy rate is \$.09 per \$1,000 of property valuation.

Grants, Contributions, and Endowments

During 2008, the District received \$84 from the Valley General Hospital Foundation, with the majority of the funding being designated for maternal fetal monitors. The District received a net of \$12 from the Valley General Hospital Guild in 2007. In 2006, the District received \$108 from the Valley General Hospital Foundation and the Valley General Hospital Guild, with the majority of the funding being used to replace the cardiac monitoring system in the Emergency Department. Both the Valley General Foundation and the Valley General Hospital Guild are 501(c)(3) organizations with their own Board of Directors, which functions independently of the District Board of Commissioners and Hospital Administration. Grants, contributions, and endowments for other than capital purchases are reported as nonoperating income.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating incomes/losses and nonoperating revenues and expenses, discussed earlier, with few exceptions. In July 2007, the District entered into a \$3,500 eight-year financing arrangement to fund facility upgrades. During 2008, \$2,858 had been distributed, and in 2007, \$583 had been distributed for the progress billings on the facility upgrade projects. In September 2006, the District entered into a financing arrangement to fund a new CT scanner and to fund a multi-year hospital-wide information technology upgrade. The total debt commitment is \$5,164, with \$400 being distributed during 2008, \$2,316 during 2007, and \$1,497 during 2006 as progress billings for information technology upgrade.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net cash from operating activities	\$ 765	\$ 185	\$ 1,876
Net cash from noncapital financing activities	267	271	256
Net cash from capital and related financing activities	(6,815)	(2,310)	2,273
Net cash from investing activities	<u>147</u>	<u>350</u>	<u>387</u>
Net change in cash and cash equivalents	<u>\$ (5,636)</u>	<u>\$ (1,504)</u>	<u>\$ 4,792</u>

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the District had \$25.8 million invested in capital assets, net of accumulated depreciation, a \$3.1 million increase from the 22.7 million that was invested in capital assets for 2007. In 2008, the Hospital completed the second year of a multi-year hospital-wide information technology upgrade. Facility upgrades were completed in wound care and outpatient emergency entrance and waiting areas. The project is scheduled to be completed in second quarter 2009.

At the end of 2007, the District had \$22.7 million invested in capital assets, net of accumulated depreciation, a \$2.6 million increase from the \$20.1 million that was invested in capital assets for 2006. In 2007, the Hospital completed the replacement of the CAT scan unit, continued with the multi-year hospital-wide information technology upgrade, and began a facility upgrade.

At the end of 2006, the District had \$20.1 million invested in capital assets, net of accumulated depreciation, a \$281 thousand increase from the \$19.8 million that was invested in capital assets for 2005. In 2006, the District began two major projects, the replacement of the CAT scan and a multi-year hospital-wide information technology upgrade.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Debt

At year-end 2008, the District had \$1,480 in Unlimited Tax General Obligation and \$7,425 in Limited Tax General Obligation Bonds outstanding.

At year-end 2007, the District had \$2,165 in Unlimited Tax General Obligation and \$7,975 in Limited Tax General Obligation Bonds outstanding. The District entered into an eight-year financing arrangement with Key Government Finance totaling \$3,500. The financing is intended to pay for facility upgrades. The proceeds were deposited into an interest-bearing escrow account, which will be drawn down as incremental portions of the construction project are completed and billed.

At year-end 2006, the District had \$2,815 in Unlimited Tax General Obligation and \$8,495 in Limited Tax General Obligation Bonds outstanding. The District entered into a five-year equipment financing arrangement with Key Government Finance totaling \$5,164. Proceeds were deposited into an interest-bearing escrow account, which will be drawn down as the new equipment, a CAT scan and a hospital-wide information technology upgrade, are received and installed. In 2005, the District entered into four capital lease agreements totaling \$415. In 2004, the District issued Limited Tax Obligation Bonds totaling \$7,425, a note payable for \$116,000, capital leases of \$56, and net line-of-credit borrowings of \$24. The District's formal debt issuances—government bonds—cannot be issued without approval of the Board of Commissioners. The amount of debt issued is subject to limitations that apply to the Hospital District. The District received a rating of "A" from Fitch during the issuance of the new bond debt in 2004.

Economic Factors

The District is primarily a residential community. The local economy is based on health care, agriculture, government employment associated with State correctional facilities and several school districts, and growing retail and light manufacturing sectors. Monroe is the largest city in the District and is an agricultural supply and service center, as well as trade, business, and professional service center. Small, diverse industries play a role in the local Monroe economy, while growth has been primarily attributable to increasing population and employment opportunities in the adjacent areas of the county including the Everett Boeing Plant and the "technology corridor" of north King County.

Contacting the District's Financial Management

This financial report provides our patients, suppliers, taxpayers, and creditors with a general overview of Snohomish County Public Hospital District No. 1's finances and shows the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administrative Office at Valley General Hospital, 14701 179th Street S.E., Monroe, WA 98272-0646.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
BALANCE SHEET**

ASSETS

	DECEMBER 31,	
	2008	2007
CURRENT ASSETS		
Cash	\$ 574,290	\$ 280,690
Patient accounts receivable, net of estimated uncollectibles of \$922,000 in 2008 and 2007	7,000,103	6,614,545
Inventory	1,095,412	1,058,819
Prepaid expenses	362,690	316,716
Assets limited as to use required for current liabilities	726,878	694,961
	<u>9,759,373</u>	<u>8,965,731</u>
ASSETS LIMITED AS TO USE, net of current portion	<u>3,542,321</u>	<u>9,531,402</u>
CAPITAL ASSETS		
Land	2,317,877	2,317,877
Construction in progress	7,865,314	5,163,171
Depreciable capital assets, net of accumulated depreciation	15,579,852	15,223,761
	<u>25,763,043</u>	<u>22,704,809</u>
DEFERRED FINANCING COSTS	<u>74,771</u>	<u>95,151</u>
Total assets	<u>\$ 39,139,508</u>	<u>\$ 41,297,093</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
BALANCE SHEET**

LIABILITIES AND NET ASSETS

	DECEMBER 31,	
	2008	2007
CURRENT LIABILITIES		
Accounts payable	\$ 2,396,871	\$ 1,970,019
Accrued salaries and benefits	2,690,621	2,298,525
Accrued interest	31,757	37,195
Deferred revenue		476,081
Estimated third-party payor settlements	187,119	300,748
Other accrued liabilities	82,511	69,439
Current portion of long-term debt	3,033,863	2,472,277
Total current liabilities	8,422,742	7,624,284
ESTIMATED MEDICAL MALPRACTICE COSTS	169,819	169,819
LONG-TERM DEBT, net of current portion	12,612,759	15,594,382
Total liabilities	21,205,320	23,388,485
NET ASSETS		
Invested in capital assets, net of related debt	11,418,393	9,131,159
Restricted expendable for debt service	1,300,486	1,454,059
Unrestricted	5,215,309	7,323,390
TOTAL NET ASSETS	17,934,188	17,908,608
Total liabilities and net assets	\$ 39,139,508	\$ 41,297,093

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	YEAR ENDED DECEMBER 31,	
	2008	2007
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$2,820,471 in 2008 and \$1,226,446 in 2007)	\$ 45,125,953	\$ 40,804,471
Revenue from tax levies for maintenance and operations	449,309	462,698
Other revenue	367,957	397,376
	<u>45,943,219</u>	<u>41,664,545</u>
OPERATING EXPENSES		
Salaries and benefits	28,690,638	27,001,628
Supplies and other	9,308,575	8,323,081
Purchased services	6,503,386	5,996,293
Depreciation and amortization	2,400,341	2,247,744
	<u>46,902,940</u>	<u>43,568,746</u>
Total operating expenses	<u>46,902,940</u>	<u>43,568,746</u>
Operating loss	<u>(959,721)</u>	<u>(1,904,201)</u>
NONOPERATING INCOME (EXPENSE)		
Revenue from tax levies for general obligation bonds	1,474,218	1,608,569
Interest expense	(514,457)	(579,353)
Interest income	147,032	350,284
Loss on sale of capital assets	(2,851)	(39,762)
Other expense, net	(202,926)	(185,862)
	<u>901,016</u>	<u>1,153,876</u>
Net nonoperating income	<u>901,016</u>	<u>1,153,876</u>
DECREASE IN NET ASSETS BEFORE CONTRIBUTION FOR CAPITAL PURCHASES	(58,705)	(750,325)
CONTRIBUTION FOR CAPITAL PURCHASES	<u>84,285</u>	<u>12,003</u>
INCREASE (DECREASE) IN NET ASSETS	25,580	(738,322)
NET ASSETS, beginning of year	<u>17,908,608</u>	<u>18,646,930</u>
NET ASSETS, end of year	<u>\$ 17,934,188</u>	<u>\$ 17,908,608</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
STATEMENT OF CASH FLOWS**

Increase (Decrease) in Cash and Cash Equivalents

	YEAR ENDED DECEMBER 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 44,150,685	\$ 41,349,802
Payments to suppliers and contractors	(15,454,604)	(14,596,346)
Payments to employees	(28,298,542)	(26,966,269)
Other cash receipts	367,957	397,376
	<u>765,496</u>	<u>184,563</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from tax levies considered financing activity	470,265	456,615
Other	(202,926)	(185,862)
	<u>267,339</u>	<u>270,753</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash from tax levies for general obligation bonds	1,481,204	1,607,619
Proceeds from long-term debt		3,500,000
Principal paid on long-term debt	(2,472,916)	(2,540,642)
Interest payments	(446,636)	(490,974)
Contribution for capital purchases	84,285	12,003
Purchase of capital assets	(5,461,426)	(4,397,821)
	<u>(6,815,489)</u>	<u>(2,309,815)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	147,032	350,284
	<u>147,032</u>	<u>350,284</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,635,622)	(1,504,215)
CASH AND CASH EQUIVALENTS, beginning of year	<u>10,399,911</u>	<u>11,904,126</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,764,289</u>	<u>\$ 10,399,911</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash	\$ 574,290	\$ 280,690
Cash and cash equivalents in assets whose use is limited	4,189,999	10,119,221
	<u>\$ 4,764,289</u>	<u>\$ 10,399,911</u>

See accompanying notes.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
STATEMENT OF CASH FLOWS (continued)**

Increase (Decrease) in Cash and Cash Equivalents

	YEAR ENDED DECEMBER 31,	
	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (959,721)	\$ (1,904,201)
Revenue from tax levies considered noncapital financing activity	(449,309)	(462,698)
Noncash expenses included in operating income		
Depreciation and amortization	2,400,341	2,247,744
Provision for bad debts	2,820,471	1,226,446
Change in operating assets and liabilities		
Patient accounts receivable	(3,206,029)	(935,143)
Inventory and prepaid expenses	(82,567)	(211,883)
Accounts payable	426,852	(57,383)
Accrued liabilities	405,168	27,653
Deferred revenue	(476,081)	267,665
Estimated third-party payor settlements	(113,629)	(13,637)
	<u>\$ 765,496</u>	<u>\$ 184,563</u>
Net cash from operating activities		
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS		
Capital assets financed with capital lease obligations		<u>\$ 496,736</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - Public Hospital District No. 1, Snohomish County, Washington (the District or the Hospital) is organized as a municipal corporation pursuant to the laws of the state of Washington. The purpose of the District is to own and operate the hospital and other health care facilities and provide health care services to the residents of Monroe, Washington, and the surrounding communities. The District's primary operations include Valley General Hospital, an acute care hospital, and Valley General Behavioral Health Programs. The hospital and behavioral health programs are licensed for 72 beds. The financial statements of the District include the health care and financing activities of the District.

Fund accounting - The District uses the proprietary fund method of accounting, whereby revenue and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District 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.

Cash and cash equivalents - The District defines cash on deposit, investments in the local government investment pool, and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents for purposes of the statement of cash flows.

Patient accounts receivable - Receivables arising from revenue for services to patients are reduced by an allowance for estimated uncollectible accounts based on past experience and other circumstances that may affect the ability of patients to meet their obligations. Accounts deemed uncollectible are charged against this allowance.

Inventory - Inventory consists of pharmaceutical, medical-surgical, dietary, and other hospital supplies valued at the lower of cost or net realizable value.

Assets limited as to use - Assets limited as to use include assets set aside by the Board of Commissioners to fund future capital improvements over which the Board retains control, and assets set aside under debt agreements. Investments are recorded at fair value. Amounts required to meet current liabilities have been classified as current assets in the accompanying balance sheet.

Capital assets - Capital assets are stated at cost. Depreciation of property and equipment is determined using the straight-line method over the assets' estimated useful lives as follows:

Land improvements	5 - 40 years
Buildings and improvements	5 - 40 years
Fixed equipment	5 - 20 years
Movable equipment	4 - 15 years

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

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

Maintenance and repairs are charged to operations when they occur. Donated items are recorded at fair market value at the date of the contribution. The District's capitalization policy is \$500 and a minimum useful life of two years.

Deferred financing costs - The cost of issuing long-term debt is capitalized and amortized using the straight-line method over the life of the related debt issue.

Loss on bond defeasance - In accordance with GASB Statement No. 23, a loss on bond defeasance was recognized in 1995, which represented the difference between the reacquisition price and net carrying amount of the old debt. This loss was deferred and is shown as a reduction of the related long-term debt, and is being amortized using the effective interest method over the remaining life of the defeased debt. Amortization of \$40,000 was included in interest expense for the years ended December 31, 2008 and 2007.

Restricted resources - When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources. There were no restricted resources other than those restricted for debt service at December 31, 2008 or 2007.

Net assets - Net assets of the District are classified in four 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 expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with the County Treasurer as required by bond indentures. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Operating revenues and expenses - The District's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services—the District's principal activity. Nonexchange revenues, including taxes for maintenance and operations, grants, and contributions received for purposes other than capital asset acquisition or debt service, are reported as other operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs paid by specific tax proceeds.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

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

Net patient service revenue - Net patient service revenue is reported in the period in which services are provided at established rates, net of contractual adjustments for Medicare, Medicaid, and other third-party payors. Contractual adjustments include differences between established billing rates and amounts estimated by management as reimbursable under various cost reimbursement formulas or contractual relationships in effect.

When reimbursement settlements are received, or when information becomes available regarding changes in recorded reimbursement, variations from amounts previously established as preliminary settlements are accounted for as a contractual adjustment in the period the settlements are received, or when information regarding reimbursement changes becomes available.

Charity care - The District provides care to patients who meet certain criteria under charity care policies. Amounts representing charity are not reported as net patient service revenue because the District does not pursue collection. Forgone revenue for charity care measured by the standard charges was \$4,468,447 in 2008 and \$4,986,958 in 2007.

Tax levy revenue - The District is permitted to levy an annual maintenance and operations tax on certain property within the hospital district without a vote of the taxpayers. Tax levy proceeds used to fund operating costs of the District are reported as other revenue. Tax levy proceeds pledged for repayment of general obligation bonds are reported as nonoperating income.

Estimated medical malpractice costs - The District has purchased claims-based liability insurance coverage that covers only asserted malpractice claims. The District recognizes expenses associated with reported claims and estimated claims incurred but not reported in the period in which the incidents are estimated to have occurred, rather than when a claim is asserted. Accrued malpractice costs, in management's opinion, provide an adequate reserve for loss contingencies. Expenses associated with these incidents are based on assumptions of settlement costs.

Federal income tax - No provision has been made for federal income taxes, as the District is a municipal corporation and is exempt from federal taxation.

Use of estimates - 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Patient Service Revenues

The District has arrangements with third-party payors that reimburse the District for patient services at amounts different from standard charges. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of diagnosis-related groups (DRGs). Each DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that DRG. The District's classification of DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization.

Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2006. Net revenue billed under Medicare totaled approximately \$14,106,000 and \$13,290,000 for 2008 and 2007, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2008 and 2007, were approximately \$888,000 and \$1,398,000, respectively.

Medicaid - Prior to July 1, 2005, inpatient acute care services rendered to Medicaid program beneficiaries were paid on a prospective payment system similar to Medicare. After July 1, 2005, a new inpatient Medicaid reimbursement methodology for all noncritical access Washington State governmental hospitals was implemented, called "Certified Public Expenditures." Under this program, the Hospital is paid for inpatient Medicaid services based on costs, including certain costs of uncompensated care. 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 Hospital will be reimbursed the higher of the full cost of service or "baseline" reimbursement that would have been received based on the pre-July 1 inpatient payment system. Outpatient services are paid on a percentage of allowed charges based on a ratio of the Hospital's operating expenses to total revenue for outpatient services. Net revenue billed under the Medicaid program totaled approximately \$4,891,000 and \$4,189,187 for 2008 and 2007, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2008 and 2007, were approximately \$433,000 and \$464,000, respectively.

Other third-party payor arrangements - The District has entered into payment agreements with certain commercial insurance companies. Payment under these agreements includes prospectively determined rates and discounts from standard charges.

Patient accounts receivable, including amounts due from third-party payors, are unsecured and arise from services provided to individuals geographically concentrated in Monroe, Washington, and the surrounding communities.

**PUBLIC HOSPITAL DISTRICT NO. 1,
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NOTES TO FINANCIAL STATEMENTS**

Note 2 - Patient Service Revenues (continued)

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

	<u>2008</u>	<u>2007</u>
Gross patient service charges	\$ 88,118,792	\$ 78,437,814
Adjustments to patient service charges		
Contractual discounts	35,703,921	31,419,939
Provision for bad debts	2,820,471	1,226,446
Charity care	4,468,447	4,986,958
	<u>42,992,839</u>	<u>37,633,343</u>
	<u>\$ 45,125,953</u>	<u>\$ 40,804,471</u>

Note 3 - Deposits and Investments

Deposits and investments are made up of the following:

Cash and cash equivalents		
Deposits in banks	\$ 574,290	\$ 280,690
Assets limited as to use		
Deposits in banks	1,763,346	6,248,550
Local government investment pool	2,426,653	3,870,671
Property taxes receivable	79,200	107,142
	<u>4,269,199</u>	<u>10,226,363</u>
	<u>\$ 4,843,489</u>	<u>\$ 10,507,053</u>

Assets whose use is limited are subject to the following restrictions and designations:

Bond funds	\$ 1,300,486	\$ 1,454,059
Designated by the Board of Commissioners for		
Capital improvements	1,666,741	3,111,274
ProShare SWAP Program		364,700
Rural Hospital Assistance		803,321
Unexpended proceeds for capital equipment	1,301,972	4,493,009
	<u>4,269,199</u>	<u>10,226,363</u>
Less assets limited as to use that are required for current liabilities	<u>726,878</u>	<u>694,961</u>
	<u>\$ 3,542,321</u>	<u>\$ 9,531,402</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
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NOTES TO FINANCIAL STATEMENTS**

Note 3 - Deposits and Investments (continued)

The District has established bond funds required under its bond resolutions. These funds are to be used to service the District's tax general obligation bonds.

Rural Hospital Assistance funds include cash received from third parties designated by the Board of Commissioners to be used to augment health care services and improve access to care in the Hospital's service area.

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

As a political subdivision of the State, deposits and investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held in the District's name. Category 2 includes uninsured and unregistered investments that are held by a broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name. At December 31, 2008 and 2007, all deposits and investments of the District are categorized as Category 1.

The District participates in the Washington State Local Government Investment Pool (LGIP). The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST, and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute, and, therefore, credit risk is very limited. Obligations of the U.S. Government and agencies are not considered to have credit risk.

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

**PUBLIC HOSPITAL DISTRICT NO. 1,
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NOTES TO FINANCIAL STATEMENTS**

Note 3 - Deposits and Investments (continued)

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

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

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

Note 4 - Capital Assets

The schedule of capital asset activity for the years ended December 31, 2008 and 2007, is as follows:

	Beginning Balance January 1, 2008	Additions	Retirements	Account Transfers	Ending Balance December 31, 2008
NONDEPRECIABLE					
CAPITAL ASSETS					
Land	\$ 2,317,877				\$ 2,317,877
Construction in progress	5,163,171	\$ 4,633,185		\$ (1,931,042)	7,865,314
Total nondepreciable capital assets	<u>7,481,048</u>	<u>4,633,185</u>		<u>(1,931,042)</u>	<u>10,183,191</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	1,192,145				1,192,145
Buildings and improvements	18,315,380	112,440		460,937	18,888,757
Fixed equipment	2,475,186				2,475,186
Movable equipment	13,082,419	715,801	\$ (1,972,115)	1,470,105	13,296,210
LESS ACCUMULATED DEPRECIATION					
Land improvements	(270,785)	(57,525)			(328,310)
Buildings and improvements	(8,512,129)	(835,693)			(9,347,822)
Fixed equipment	(2,123,712)	(57,162)			(2,180,874)
Movable equipment	(8,934,743)	(1,449,961)	1,969,264		(8,415,440)
Depreciable capital assets, net	<u>15,223,761</u>	<u>(1,572,100)</u>	<u>(2,851)</u>	<u>1,931,042</u>	<u>15,579,852</u>
	<u>\$ 22,704,809</u>	<u>\$ 3,061,085</u>	<u>\$ (2,851)</u>	<u>\$ -</u>	<u>\$ 25,763,043</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Capital Assets (continued)

	Beginning Balance January 1, 2007	Additions	Retirements	Account Transfers	Ending Balance December 31, 2007
NONDEPRECIABLE					
CAPITAL ASSETS					
Land	\$ 2,317,877				\$ 2,317,877
Construction in progress	2,632,428	\$ 3,607,678		\$ (1,076,935)	5,163,171
Total nondepreciable capital assets	4,950,305	3,607,678		(1,076,935)	7,481,048
DEPRECIABLE CAPITAL					
ASSETS					
Land improvements	1,184,319	7,826			1,192,145
Buildings and improvements	17,836,570	263,179		215,631	18,315,380
Fixed equipment	2,414,555	8,544		52,087	2,475,186
Movable equipment	12,283,023	1,007,330	\$ (1,017,151)	809,217	13,082,419
LESS ACCUMULATED					
DEPRECIATION					
Land improvements	(213,783)	(57,002)			(270,785)
Buildings and improvements	(7,748,816)	(763,313)			(8,512,129)
Fixed equipment	(2,066,539)	(57,173)			(2,123,712)
Movable equipment	(8,541,876)	(1,370,256)	977,389		(8,934,743)
Depreciable capital assets, net	15,147,453	(960,865)	(39,762)	1,076,935	15,223,761
	<u>\$ 20,097,758</u>	<u>\$ 2,646,813</u>	<u>\$ (39,762)</u>	<u>\$ -</u>	<u>\$ 22,704,809</u>

Depreciation and amortization expense for the years ended December 31, 2008 and 2007, was \$2,400,341 and \$2,247,744, respectively.

The District has included equipment under capital lease obligations in capital assets with a cost of \$902,784 and \$978,512 at December 31, 2008 and 2007, respectively. Amortization expense of \$236,633 and \$227,043 related to this equipment was recorded in depreciation expense for 2008 and 2007, respectively. Accumulated amortization for equipment under capital lease obligations was \$535,372 and \$374,466 at December 31, 2008 and 2007, respectively.

The District estimates the cost to complete construction in progress is \$1,346,000 at December 31, 2008.

**PUBLIC HOSPITAL DISTRICT NO. 1,
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NOTES TO FINANCIAL STATEMENTS**

Note 5 - Employee Benefit Plans

Defined contribution plan - The District sponsors a defined contribution plan, administered by The Harford, in accordance with Internal Revenue Code Section 401(a) covering substantially all qualified employees. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners. Active participants meeting hourly and employee contribution criteria receive an employer matching contribution based on a percentage of the employees' base salary, subject to certain limitations. The employer contribution fully vests upon completion of five qualified years, or upon the occurrence of death, disability, or attainment of age 65 for qualified employees. Vesting retroactively accelerates 20% per qualified year for individuals involved in a reduction in force. Forfeited contributions, if any, are applied against future employer obligations.

The District's liability under the plan is limited to its annual contribution. It is the District's policy to fund current pension costs accrued under the plan. Contributions to the plan charged to operations amounted to approximately \$1,322,000 in 2008 and \$1,180,000 in 2007. Contributions made by employees to the benefit plan totaled approximately \$1,425,000 in 2008 and \$1,464,000 in 2007. For more information on the plans, contact the District's human resources office.

Deferred compensation plan - The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the 457 Plan). The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District does not allow new contributions to the 457 Plan, as it was replaced by the 401(a) plan.

Note 6 - Line of Credit

The District has a line of credit with a bank with a \$750,000 limit. Advances under the line of credit bear interest at 1.0% under the New York prime rate (3.25% at December 31, 2008). The outstanding balance of the line of credit was \$0 at December 31, 2008 and 2007.

**PUBLIC HOSPITAL DISTRICT NO. 1,
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NOTES TO FINANCIAL STATEMENTS**

Note 7 - Long-Term Debt

	<u>2008</u>	<u>2007</u>
Unlimited Tax General Obligation Refunding Bonds, 1995, due serially on December 1 in amounts ranging from \$720,000 in 2009 to \$760,000 in 2010 at interest rates ranging from 5.50% to 5.65%, including unamortized discount and capitalized losses of \$80,413 and \$119,852 at December 31, 2008 and 2007, respectively. Outstanding bonds are subject to redemption at the option of the District.	\$ 1,399,587	\$ 2,045,148
Limited Tax General Obligation Refunding Bonds, 1995, paid off in 2008.		126,525
Limited Tax General Obligation Bonds, 1998, paid off in 2008.		415,000
Limited Tax General Obligation Bonds, 2004, due serially in amounts ranging from \$580,000 in 2009 to \$940,000 in 2018 at interest rates ranging from 3.00% to 4.50%, including unamortized discount of \$44,688 and \$49,654 at December 31, 2008 and 2007, respectively. Bonds maturing after December 1, 2014, are subject to redemption at the option of the District after December 31, 2013.	7,380,312	7,375,346
Note payable to a bank, due in monthly payments including interest at a variable rate. Payments are based on the current interest rate. At December 31, 2008, the interest rate and monthly payment were 3.00% and \$1,942, respectively.	18,851	42,453
Note payable to a bank, due in monthly payments of \$11,211, including interest at 4.64%, through September 2011. The note is secured by equipment.	344,234	457,810
Note payable to a bank, due in quarterly payments of \$260,935, including interest at 4.64%, through July 2011. The note is secured by equipment.	2,674,900	3,564,210
Note payable to a bank, due in monthly payments of \$49,091, including interest at 4.77%, through December 2015. This note is secured by equipment.	3,500,000	3,500,000
Capital lease obligations, due in monthly payments totaling \$17,700, including interest from 7.91% to 9.02%. Collateralized by equipment.	<u>328,738</u>	<u>540,167</u>
	15,646,622	18,066,659
Less current portion	<u>3,033,863</u>	<u>2,472,277</u>
Long-term debt, net of current portion	<u><u>\$ 12,612,759</u></u>	<u><u>\$ 15,594,382</u></u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
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NOTES TO FINANCIAL STATEMENTS**

Note 7 - Long-Term Debt (continued)

A schedule of changes in the District's long-term obligations, net of any discounts or premiums, for the years ended December 31, 2008 and 2007, follows:

	Beginning Balance January 1, 2008	Additions	Reductions	Ending Balance December 31, 2008	Amounts Due Within One Year
Unlimited tax general obligation refunding bonds, 1995	\$ 2,045,148		\$ 645,561	\$ 1,399,587	\$ 720,000
Limited tax general obligation refunding bonds, 1995	126,525		126,525		
Limited tax general obligation bond, 1998	415,000		415,000		
Limited tax general obligation bond, 2004	7,375,346		(4,966)	7,380,312	580,000
Note payable to bank	42,453		23,602	18,851	18,851
Note payable to bank	457,810		113,576	344,234	119,575
Note payable to bank	3,564,210		889,310	2,674,900	932,544
Note payable to bank	3,500,000			3,500,000	470,553
Capital lease obligations	540,167		211,429	328,738	192,340
Total long-term debt	18,066,659	-	2,420,037	15,646,622	3,033,863
Estimated medical malpractice costs	169,819			169,819	
Total noncurrent liabilities	<u>\$ 18,236,478</u>	<u>\$ -</u>	<u>\$ 2,420,037</u>	<u>\$ 15,816,441</u>	<u>\$ 3,033,863</u>
	Beginning Balance January 1, 2007	Additions	Reductions	Ending Balance December 31, 2007	Amounts Due Within One Year
Unlimited tax general obligation refunding bonds, 1995	\$ 2,674,530		\$ 629,382	\$ 2,045,148	\$ 685,000
Limited tax general obligation refunding bonds, 1995	253,051		126,526	126,525	135,000
Limited tax general obligation bond, 1998	800,000		385,000	415,000	415,000
Limited tax general obligation bond, 2004	7,350,299		(25,047)	7,375,346	
Note payable to bank	63,590		21,137	42,453	25,662
Note payable to bank	565,684		107,874	457,810	114,995
Note payable to bank	4,364,167		799,957	3,564,210	889,198
Note payable to bank		\$ 3,500,000		3,500,000	
Capital lease obligations	484,834	496,736	441,403	540,167	207,422
Total long-term debt	16,556,155	3,996,736	2,486,232	18,066,659	2,472,277
Estimated medical malpractice costs	169,819			169,819	
Total noncurrent liabilities	<u>\$ 16,725,974</u>	<u>\$ 3,996,736</u>	<u>\$ 2,486,232</u>	<u>\$ 18,236,478</u>	<u>\$ 2,472,277</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Long-Term Debt (continued)

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

	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,841,523	\$ 665,371
2010	2,962,266	532,402
2011	2,020,802	390,787
2012	1,217,792	322,053
2013	1,279,256	269,939
2014-2018	<u>5,121,346</u>	<u>615,644</u>
	15,442,985	<u>\$ 2,796,196</u>
Less amount representing net unamortized bond discounts, premiums, and capitalized loss on bond defeasance	<u>(125,101)</u>	
	<u>\$ 15,317,884</u>	

Scheduled principal and interest repayments on capital lease obligations are as follows:

2009	\$ 211,314
2010	74,513
2011	<u>74,512</u>
	360,339
Less amount representing interest	<u>31,601</u>
Present value of capital lease payments	<u>\$ 328,738</u>

The District has pledged to levy taxes and set aside net revenue of the Hospital, if necessary, sufficient to make principal and interest payments on all of the bonds. Further, bond funds (Note 3) collateralize the general obligation bonds.

During 2009, the District plans to issue \$14.3 million in limited tax general obligation bonds. The bond proceeds will be used for refunding the 2004 limited tax general obligation bonds, refinance capital leases, capital improvements, and cash flow purposes.

**PUBLIC HOSPITAL DISTRICT NO. 1,
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NOTES TO FINANCIAL STATEMENTS**

Note 8 - Property Taxes

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

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2008 and 2007, the District's regular tax levy was \$0.09 and \$0.10 per \$1,000 on a total assessed valuation of \$15,181,210,610 and \$12,722,820,555, for a total regular levy of \$1,308,822 and \$1,265,465, respectively. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For 2008 and 2007, the tax levy for bond service was \$0.04 and \$0.05 per \$1,000 on the total assessed valuation, for a total additional levy of \$597,196 and \$696,864, respectively.

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

Note 9 - Leases

The District leases operating space and miscellaneous equipment under operating leases expiring at various dates through 2019. Rental expense under all operating leases for the years ended December 31, 2008 and 2007, was \$1,603,000 and \$1,172,000, respectively.

Future minimum lease payments under noncancelable operating leases for the years ending December 31 are as follows:

2009	\$ 1,888,158
2010	1,859,085
2011	1,601,259
2012	1,468,532
2013	1,334,887
2014 - 2018	4,971,820
2019	<u>158,221</u>
	<u>\$ 13,281,962</u>

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
dba VALLEY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

Note 10 - Collective Bargaining Units

At December 31, 2008, the District had a total of approximately 519 employees. Of this total, approximately 413 are covered by collective bargaining agreements. One of the agreements, which covers 65 employees, will expire during 2009.

Note 11 - Contingencies

Risk pools - The District participates in public entity risk pools for various programs, including employee health benefits and workers' compensation.

Compliance with laws and regulations - The District is subject to many complex federal, state, and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation, and unknown or unasserted regulatory actions. 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 significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient service revenues. The District has implemented a voluntary corporate compliance program that includes guidance for all District employees' adherence to applicable laws and regulations. Management believes any actions that may result from investigations of noncompliance with laws and regulations will not have a material effect on the District's future financial position or results of operations.

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

**PUBLIC HOSPITAL DISTRICT NO. 1,
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NOTES TO FINANCIAL STATEMENTS**

Note 12 - Concentration of Credit Risk

The Hospital 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, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	17%	25%
Medicaid	10%	10%
Blue Cross	9%	8%
Blue Shield	10%	11%
Other third-party payors	35%	29%
Patients	<u>19%</u>	<u>17%</u>
	<u>100%</u>	<u>100%</u>

The Hospital has a contractual agreement with an external agency that structures third-party commercial loans with self-pay patients. Self-pay accounts are sold with recourse to the third party. Amounts outstanding with the third party as of December 31, 2008 and 2007, were \$362,335 and \$314,588, respectively.