Report of Independent Auditors
and Financial Statements
and Supplemental Information for

Public Hospital District No. 1
of King County, Washington
dba Valley Medical Center

December 31, 2010 and 2009

MOSS-ADAMS LLP

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REPORT OF INDEPENDENT AUDITORS

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, 2010 and 2009, 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, 2010 and 2009, 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 22 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 11, 2011

This section of the annual financial report of the District provides management's discussion and analysis of the organization for the years ended December 31, 2010 and 2009.

Introduction

This report consists of three parts: Management's Discussion and Analysis (MD&A), Financial Statements, and Notes to the Financial Statements. The Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center (the Medical Center) is committed to transparency in financial reporting and effective stewardship of its assets, and believes this discussion supports that commitment.

The following discussion and analysis provides an overview of the financial position and activities of the Medical Center for the year ended December 31, 2010. 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. All sections are the responsibility of management.

Summary of Financial Highlights and Trends

For the Year Ended December 31, 2010

The Medical Center concluded 2010 with an operating income of $12.8 million, a 30.2% decrease from 2009's operating income of $18.3 million. That operating income resulted in an operating margin of 3.3%, compared to 4.9% in 2009. Operating income for 2008 was $7.2 million, with an operating margin of 2.1%.

The Medical Center's total assets increased $58.7 million, or 10.4%, for the year ending December 31, 2010. Current assets increased $12.2 million, or 9.0%, between 2009 and 2010 year-ends, while long-term investments increased $1.2 million, or 17.8%, between years.

Total assets limited as to use increased 61.5% to $112.9 million; that increase is primarily attributed to the issuance of the 2010 bond series. Capital assets, net of accumulated depreciation, increased .4% between years, as the majority of construction in progress was capitalized and became depreciable assets.

The Medical Center's total current liabilities decreased nearly $772,000, or 1.3%, due to decreases in warrants and accounts payable at December 31, 2010, compared to the prior year-end. Long-term debt, net of current portion, increased by 16.8%, or $49.0 million, due to the issuance of the 2010 bond series in June 2010, which is further discussed in Note 8 to the financial statements.

Total net assets increased $10.1 million, or 4.7%, due primarily to operating income of $12.8 million.

Summary of Financial Highlights and Trends (continued)

For the Year Ended December 31, 2010 (continued)

The Medical Center's financial position at year-end was related to both operational volumes and expenses:

- Total patient days, at 58,346, were nearly even with 2009's total patient days of 59,218.
- Discharges decreased by 1.6%, from 16,541 in 2009 to 16,272 in 2010.
- Emergency department visits increased 4.7%, from 70,179 in 2009 to 73,445 in 2010. The opening of the new Emergency Services Tower in February 2010 expanded capacity and throughput of patient volumes, shortened patient wait times, and reduced the Medical Center's "left without being seen" volumes by 41% between years.
- Births decreased 5.9%, from 3,952 in 2009 to 3,720 in 2010.
- The total number of surgery patients was essentially even between years, with 10,753 patients in 2009 and 10,834 patients in 2010. However, orthopedic cases increased 10.8% between years, from 941 cases in 2009 to 1,043 cases in 2010.
- Outpatient visits, both within the hospital and including the entire clinic network (but excluding the emergency department as mentioned above), decreased 4.6%, from 508,070 visits in 2009 to 484,796 in 2010. During 2010, the primary and urgent care clinics were implementing an electronic medical record system that reduced physician panel capacity.
- Hospital payor mix in 2010, comparative to the payor mix in 2009 (using gross revenue), demonstrated that Medicare and Medicaid stayed consistent with 2009 levels. Commercial payors decreased 1% and self-pay increased 1%. Management attributes the slight increase in self-pay to the current economic environment.
- Charity care increased approximately $302,000, or 2.1%, from $14.1 million to $14.4 million.
- Bad debt increased approximately $557,000, or 1.9%, from $29.0 million to $29.6 million. The relative consistency in both charity care and bad debt expense is attributed to significant effort with financial counseling and advocacy in assisting patients with finding appropriate funding sources.
- Salaries and wages increased by $11.9 million (7.8%), from $153.2 million in 2009 to $165.1 million in 2010, largely resulting from the re-insourcing of the hospital and clinic patient financial services departments, and the Medical Center's contractually agreed-upon increases in rate of pay per hour to employees.
- Employee benefits increased $5.7 million (12.8%), from $44.2 million in 2009 to $49.9 million in 2010, primarily due to increased utilization of self-insured health benefits, coupled with the additional employees who joined the Medical Center with the re-insourcing of the hospital and clinic patient financial services.

Summary of Financial Highlights and Trends (continued)

For the Year Ended December 31, 2010 (continued)

- Supply and other expenses decreased by $2.4 million (1.9%), from $126.9 million in 2009 to $124.4 million in 2010. This line item includes physician fees, professional services, supplies, purchased services, utilities, taxes, and other expenses such as physician and employee training and education. Further explanation of this line item is found in the financial analysis of total operating expenses.

- Depreciation expense increased $6.0 million (27.8%), from $21.7 million in 2009 to $27.8 million in 2010 and is directly attributed to the capitalization of the Emergency Services Tower, which went "live" in February 2010.

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 500,138 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.

- Hospital payor mix in 2009, comparative to the payor mix in 2008 (using gross 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.

Volume and Statistics

Following are key operating statistics for the years ended December 31, 2010, 2009, and 2008, respectively, as referenced within the above Summary of Financial Highlights and Trends.

	2010	2009	2008
Inpatient and Operating Room Activity			
Available beds	266	247	245
Discharges	16,272	16,541	16,377
Patient days	58,346	59,218	58,734
Length of stay	3.35	3.35	3.56
Occupancy	61%	66%	61%
Surgery patients	10,834	10,753	10,582
Births	3,720	3,952	4,070
Ambulatory and Emergency Services			
Outpatient visits	484,796	508,070	500,138
Emergency department visits	73,445	70,179	69,703
Medical Center Staffing			
Full-time equivalent employees	2,207	2,087	2,037

Overall, the Medical Center's inpatient volumes experienced slight decreases in 2010, comparative to the prior two years. Discharges have remained essentially constant, as have surgical patient volumes. Births decreased 5.9% from 2009.

The number of available beds has increased between 2008 and 2010. In January 2008, available beds were 245. During 2009, beds that had been taken out of service during the staging of construction for the Emergency Services Tower came back on line. Several bed complements were modified to accommodate the Birth Center's and Neurosciences' volumes as well.

In 2010, available beds increased to 266 by year-end with the tiered opening of the Emergency Services Tower. In February, the emergency department opened; the critical care unit and an additional patient floor, housing medical/surgical patients, opened in April.

Outpatient volumes, excluding the emergency department, decreased 4.6% between 2009 and 2010. The volumes represent both outpatient hospital-based visits, such as radiology, breast health, physical therapy, children's therapy, and anticoagulation, and the Medical Center's clinic network, comprising primary, specialty, and urgent care clinics.

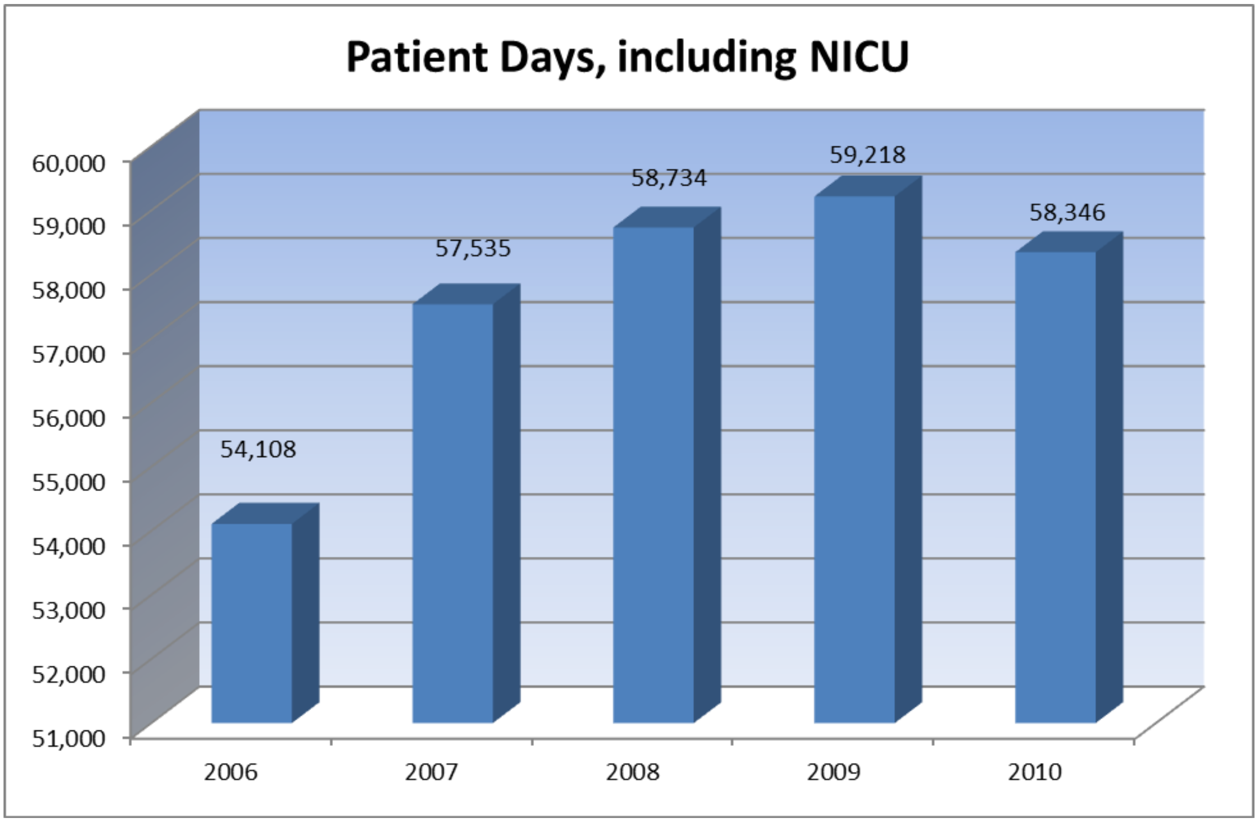
Much of the decrease within the clinic network was attributed to the implementation of an electronic medical record information technology system during 2010, which reduced physician panel capacity. Several primary care clinics also had open physician positions for several months during the year, which reduced capacity.

As previously stated, the emergency department increased volumes by 4.7%, from 70,179 visits in 2009 to 73,445 in 2010.

Volume and Statistics (continued)

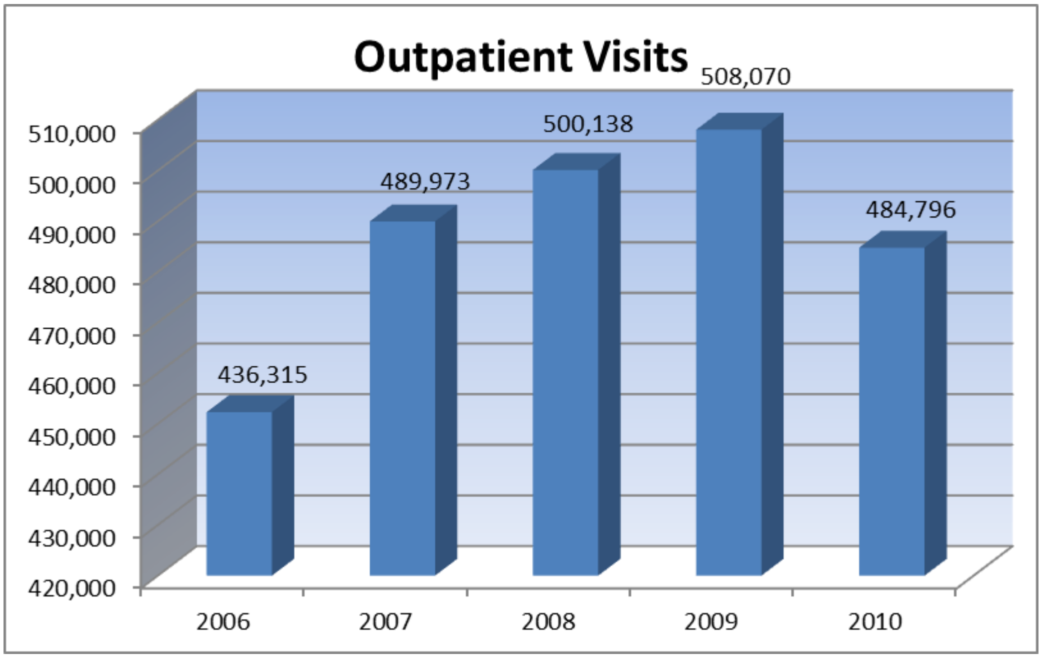
The Medical Center's full-time equivalent employees increased from 2,087 to 2,207 between December 31, 2009 and 2010, respectively. The primary increase was related to the re-insourcing of the hospital and clinic patient financial services departments, as those functions were previously performed by a third-party vendor, and additional positions related to the Emergency Services Tower.

As the following graph illustrates, patient days have increased by 7.8% between 2006 and 2010 and reflect overall volume growth across the Medical Center's inpatient departments, coupled with a general increase in case mix.



The following graph illustrates the Medical Center's outpatient volumes, as measured by visits, over the past five years.

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 whether 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):

	2010	2009	2008
ASSETS			
Current assets	$ 148,248	$ 136,058	$ 143,433
Assets limited as to use, net of current amount	112,871	69,900	95,870
Capital assets, net	347,554	346,136	305,698
Other noncurrent assets	15,330	13,166	18,440
Total assets	$ 624,003	$ 565,260	$ 563,441
LIABILITIES			
Current liabilities	$ 56,898	$ 57,670	$ 66,120
Noncurrent liabilities	343,785	294,389	301,960
Total liabilities	400,683	352,059	368,080
NET ASSETS			
Invested in capital assets, net of related debt	40,816	47,723	53,271
Restricted			
For debt service	7,946	6,981	5,286
Expendable for specific operating activities	332	342	349
Unrestricted	174,226	158,155	136,455
Total net assets	223,320	213,201	195,361
Total liabilities and net assets	$ 624,003	$ 565,260	$ 563,441

Financial Analysis

Balance Sheet - Assets - 2010 Comparative to 2009

Total Assets were $624.0 million at year-end, compared to $565.3 million at December 31, 2009, an increase of $58.7 million (10.4%).

Current Assets increased by $12.2 million (9.0%), from $136.1 million to $148.2 million. While cash and cash equivalents decreased by $3.4 million, or 12.2%, from $27.6 million to $24.3 million, short-term investments increased by $5.3 million, or 13.8%, from $38.5 million to $43.8 million. The increase in short-term investments is reflective of investment selections performed by the Medical Center and its investment advisors during 2010 in light of current economic conditions. Prepaid expenses and other assets increased by $1.9 million, or 25.9%, from $7.3 million to $9.2 million, which is due to several deposits made at the end of the year related to information technology maintenance agreements.

Financial Analysis (continued)

Balance Sheet - Assets - 2010 Comparative to 2009 (continued)

Noncurrent Assets Limited as to Use increased by $43.0 million, or 61.5%, from $69.9 million in 2009 to $112.9 million at 2010 year-end. Nearly the entire increase is attributed to the 2010 bond series proceeds, which are reflected in this section. In addition, the revenue bond indenture agreement amount increased by $1.0 million, or 15.9%, from $6.4 million to $7.4 million, and reflects the additional amount of required funding into the Reserve Fund related to the 2010 revenue bond issue.

Long-Term Investments increased by $1.2 million, or 17.8%, from $6.9 million to $8.2 million. Long-term investments are nonrestricted assets with over one year to maturity when purchased.

Capital Assets, Net increased by $1.4 million, or .4%, from $346.1 million at year-end 2009 to $347.6 million at year-end 2010. The primary changes in this category are related to the capitalization of the nearly $125 million nine-story Emergency Services Tower. The Tower is composed of two floors of underground parking, a significantly expanded 56-room emergency department, a new and expanded critical care unit, two additional patient floors, and enhanced information technology. Two additional floors are shelled, but not interior-finished.

The slight increase represents a nearly equivalent offset between the $130.6 million decrease in construction in progress and the capitalization and, therefore, increase in depreciable net assets of $127.0 million.

Other capital assets funded during 2010 included: the renovation of current hospital space; upgrading and enhancing various hospital-based infrastructure; acquisition of hospital equipment; and the construction and renovation of several urgent care clinics. The Medical Center also purchased land at the end of 2010.

Other Noncurrent Assets increased by $931,000, or 15.0%, from $6.2 million to $7.2 million at December 31, 2010 The increase was partially related to an increase in deferred financing costs associated with the issuance of the 2010 bond series and partially related to an increase in the investment in affiliate. (See Note 7 to the Financial Statements for further information on the investment in affiliate).

Current Liabilities decreased by $772,000, from $57.7 million at December 31, 2009 to $56.9 million at December 31, 2010. This decrease was due to decreases in warrants and accounts payable. Those decreases, representing a change of $6.9 million from prior year, more than offset the $3.7 million increase in accrued salaries, wages, and benefits. That increase was due to timing on when the final payroll period of 2010 was earned (more payroll days were accrued in 2010 than in 2009).

Noncurrent Liabilities, representing long-term debt and capital lease obligations, net of current portion, increased by $49.0 million, or 16.8%, from $292.0 million to $341.0 million at December 31, 2010. In June 2010, the District issued $86.3 million in revenue bonds in two series (federally tax-exempt series A and federally taxable Build America bonds series B). A significant portion of the Series A revenue bonds were used to refund and defease eligible portions of both the 1997 and 1998 revenue bond series. The 2010 bond series is discussed within Note 8 to the Financial Statements.

Financial Analysis (continued)

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.

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 was completed, in several phases, during 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 - 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, 2010, total net assets increased by $10.1 million (4.7%) to $223.3 million, from $213.2 million at December 31, 2009.

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.

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)

Revenues, Expenses, and Changes in Net Assets (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, 2010, 2009, and 2008
(dollars in thousands)

	2010	2009	2008
Net operating revenue	$ 393,538	$ 372,729	$ 348,116
Net operating expenses	380,737	354,386	340,899
Operating income	12,801	18,343	7,217
Nonoperating expense	(2,682)	(503)	(188)
Increase in net assets	10,119	17,840	7,029
Net assets, beginning of year	213,201	195,361	188,332
Net assets, end of year	$ 223,320	$ 213,201	$ 195,361

Total Operating Revenues - For the Year Ended December 31, 2010

Total Net Operating Revenue consists of three primary sources: net patient revenue, tax revenue, and other operating revenue. Net patient revenue is composed of inpatient and outpatient revenue. Outpatient revenue consists of both hospital-based and clinic network revenue.

For the year ended December 31, 2010, the Medical Center's net operating revenue was $393.5 million, which represents an increase of $20.8 million, or 5.6%, over 2009's net operating revenue of $372.7 million.

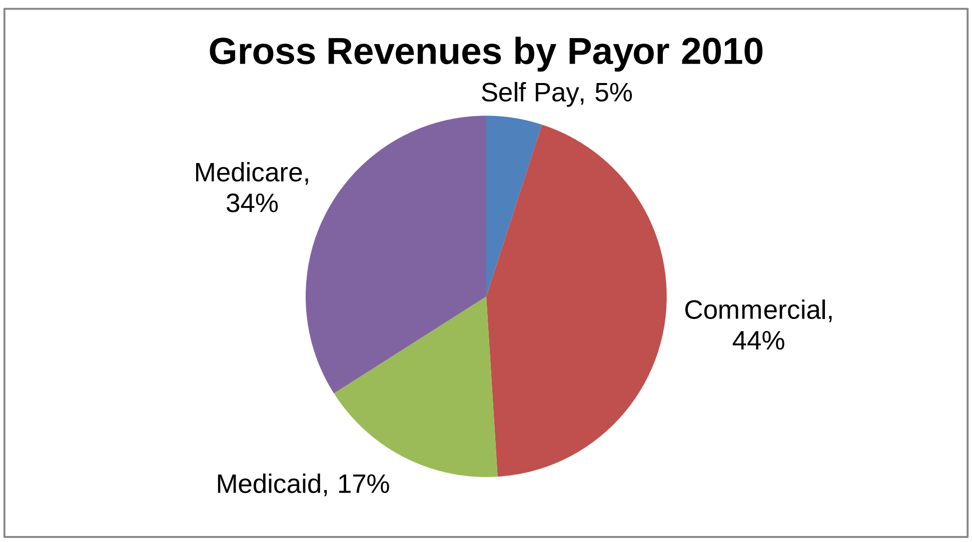
Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2010 (continued)

Of the $393.5 million, $354.4 million was net patient revenue, $19.1 million was tax revenue, and $20.0 million was other revenue.

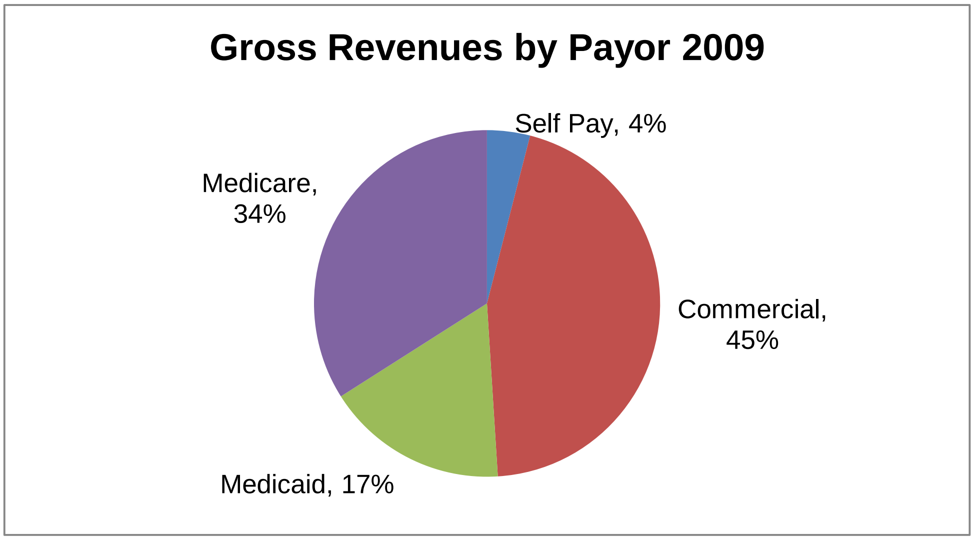
Net patient service revenue increased $22.9 million, or 6.9%, between years. Much of the growth in net patient revenues can be attributed to the same causations that were discussed in 2009. In particular, the impact of a selected rate increase mid-year, additional renegotiated contracts, re-insourced and re-engineered "front end" business office systems and processes, proactive upfront collection processes, responsive financial counseling to find appropriate funding sources or documented charity care, increased denial and underpayment recoveries, and the implementation of certain information technology systems designed to specifically address key revenue cycle metrics and improvements.

Hospital payor mix, based upon gross revenues, remained nearly constant with 2009's payor mix. The graphs below illustrate the Medical Center's payor mix based on gross revenues for the years ended December 31, 2010 and 2009.



Financial Analysis (continued)

Total Operating Revenues - For the Year Ended December 31, 2010 (continued)



Revenue from taxation decreased by 1.5%, from $19.4 million in 2009 to $19.1 million in 2010.

Other operating revenue decreased 8.1%, from $21.8 million in 2009 to $20.0 million in 2010. Other operating revenue includes the radiology and radiation oncology joint ventures, as well as laboratory services, pharmacy, and the cafeteria. No one department or area experienced a significant decrease in revenue in 2010 compared to 2009; rather, many departments witnessed small decreases that, in the aggregate, resulted in the overall decrease.

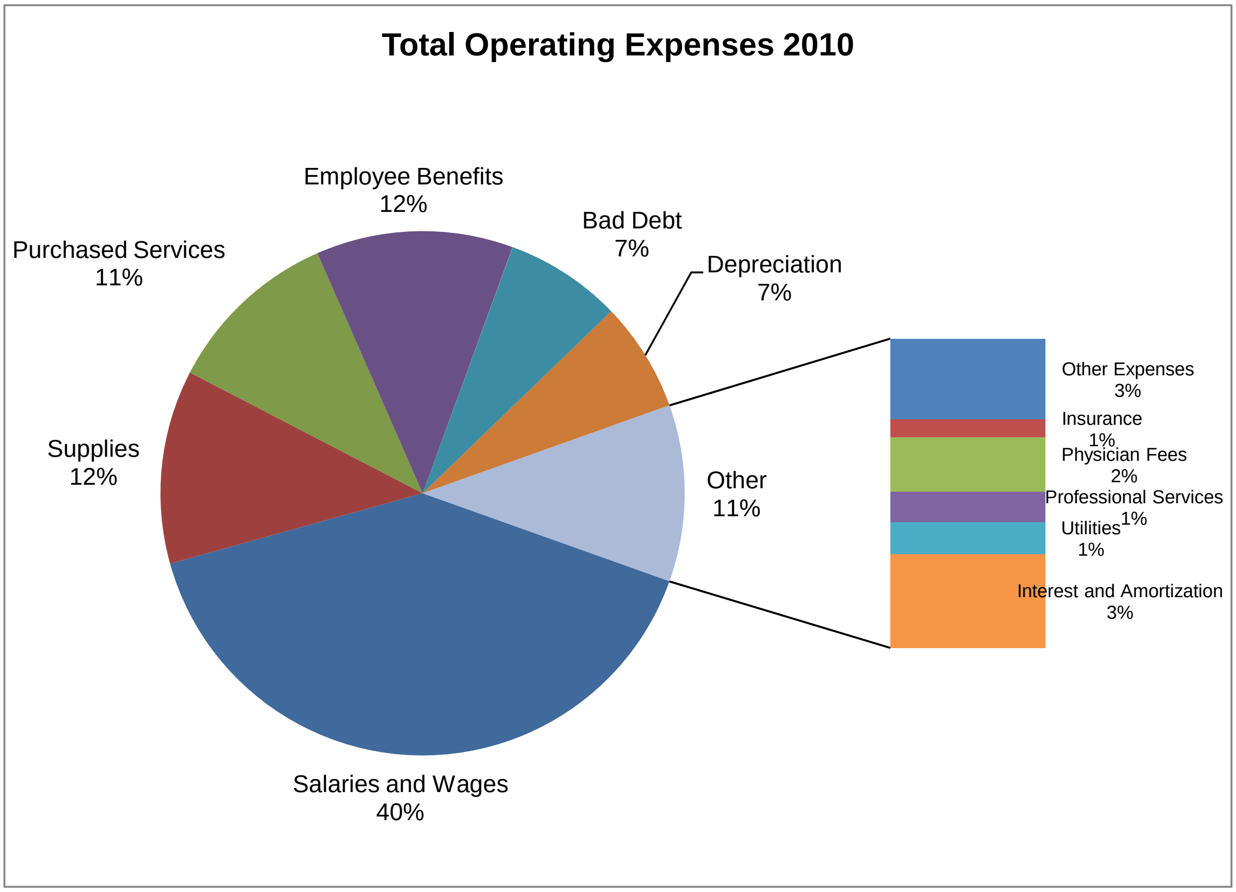
Total Operating Expenses - For the Year Ended December 31, 2010

Net Operating Expenses increased by $26.4 million, or 7.4%, from $354.4 million in 2009 to $380.7 million in 2010. Salaries and wages increased by $11.9 million, or 7.8%; employee benefits increased by $5.7 million, or 12.8%; supplies and other expenses decreased by $2.4 million, or 1.9%; depreciation increased by $6.0 million, or 27.8%; and interest and amortization increased by $5.2 million, or 61.7%. Each expense type is discussed further below.

Financial Analysis (continued)

Total Operating Expenses - For the Year Ended December 31, 2010 (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 due to contractually agreed-upon hourly wages under various labor agreements, as well as the re-insourcing of the hospital and clinic patient financial services departments. In addition, the Medical Center continued to add highly specialized positions, such as physicians, registered nurses, and other key clinical personnel to reduce the Medical Center's need for contract labor. The Medical Center's premium time (including both contract labor and overtime) was 3.8% of total productive hours at year-end. This is a reduction of 18.7% from 2009's premium time percentage of total productive hours and is reflective of the Medical Center's emphasis on labor productivity, which is continuously monitored on a daily and bi-weekly basis.

Employee Benefits, as a percent of salaries and wages, increased from 28.9% in 2009 to 30.2% in 2010. The increase was due to utilization of self-insured health and dental plan costs, coupled with the increase in full-time employees, as noted above.

Financial Analysis (continued)

Total Operating Expenses - For the Year Ended December 31, 2010 (continued)

Supplies and Other Expenses consist of supply expense, physician fees, professional services, purchased services, utilities, and other expenses. Supply expense itself increased $2.4 million (5.1%); those increases were related primarily with implant costs, and, as previously mentioned, orthopedic cases increased 10.8% between 2009 and 2010. Routine supply expense was essentially flat as part of the Medical Center's conversion mid-way through 2010 to a different Group Purchasing Organization.

Physician fees represent expenses associated with emergency room coverage, medical directorships, and expanded hospital services with hospitalists, laborists, anesthesiologists, and intensivists. Those fees increased 5.5% during 2010, from $7.4 million to $7.8 million. Professional services fees are composed of medical and other consultant fees, and legal and audit-related fees. This component decreased by 24.1%, from $5.8 million in 2009 to $4.4 million in 2010. That decrease is attributed to significant cost-containment endeavors, as well as emphasis on active monthly monitoring of actual to budget variances, that were deployed by the Medical Center in first quarter 2010.

Purchased services decreased by 7.8%, or $3.8 million, from $48.1 million in 2009 to $443 million in 2010. Part of the decrease was due to the re-insourcing of the hospital and clinic patient financial services departments, and the termination of those services with a third-party vendor. In addition, this area was also subject to significant cost-containment and emphasis on active monthly monitoring of actual to budget variances.

Utility expense decreased 5.9%, from $4.9 million in 2009 to $4.6 million in 2010. Other expenses, which include taxes, insurance, licenses, training, and education, decreased $222,000, or 1.6%, from $14.3 million to $14.0 million.

Depreciation, as anticipated, increased $6.0 million, or 27.8%, between years. This increase is due primarily to the opening of the Emergency Services Tower in early 2010. Several other construction and information technology projects were also completed during 2010 and capitalized.

Interest and Amortization increased $5.2 million, or 61.7%, from $8.4 million in 2009 to $13.6 million in 2010. The increase has several causes. Interest expense increased with the issuance of the 2010 bond issue. In particular, the 2010 series B Build America bond issue is a federally taxable issue. The 35% subsidy the Medical Center receives from the U.S. Department of the Treasury related to this debt issuance is not netted against interest expense, but is instead included in other operating revenue. The amount of capitalized interest related to the Medical Center's outstanding construction projects funded with debt proceeds also decreased in 2010 with the completion of the Emergency Services Tower. Capitalized interest, at a lower amount, continued to offset interest expense with the issuance and funding of the 2010 bond issue.

Financial Analysis (continued)

Total Operating Expenses - For the Year Ended December 31, 2010 (continued)

Nonoperating Income (Expense) for the year changed by ($2.2 million), or 433%, from ($504,000) in 2009 to ($2.7 million) in 2010. The decrease is largely attributed to national economic conditions related to fixed income investments and was largely composed of unrealized negative changes in the market value of investments. These unrealized losses were partially offset by rental income from medical office buildings.

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

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

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.

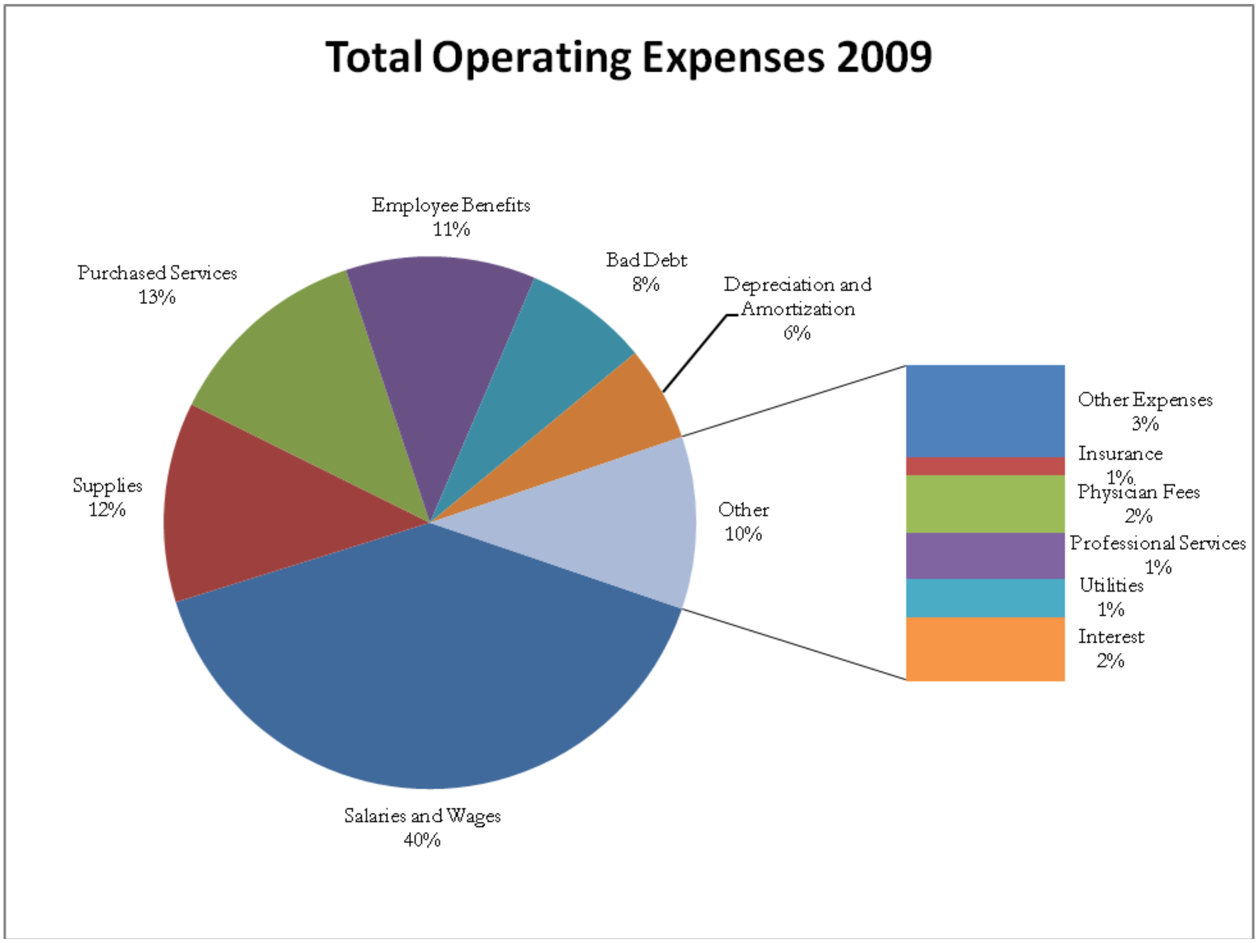
Total Operating Expenses - For the Year Ended December 31, 2009

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%. Each expense type is discussed further below.

Financial Analysis (continued)

Total Operating Expenses - For the Year Ended December 31, 2009 (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 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.

Financial Analysis (continued)

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

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 primarily composed 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)

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, 2010, 2009, and 2008 (dollars in thousands)

	2010	2009	2008
Cash flows from			
Operating activities	$ 21,311	$ 13,625	$ 7,304
Noncapital financing activities	19,168	19,311	18,550
Capital and related financing activities	4,733	(82,510)	(65,152)
Investing activities	(39,666)	13,417	9,920
Net change in cash and cash equivalents	5,546	(36,157)	(29,378)
Cash and cash equivalents, beginning of year	28,428	64,585	93,963
Cash and cash equivalents, end of year	$ 33,974	$ 28,428	$ 64,585

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.

Financial Analysis (continued)

Profitability, Liquidity, and Capital Ratios

The following table outlines selected ratios the Medical Center monitors as compared to Standard and Poor's A- rated, freestanding hospitals. (2010 median, based on 2009 data).

	2010	2009	2008	S&P A- Median
Profitability Ratios				
Operating margin	3.3%	4.9%	2.1%	2.1%
Excess margin	2.6%	4.8%	2.0%	3.0%
Total EBIDA %	13.8%	13.0%	10.3%	9.9%
Liquidity Ratios				
Days cash on hand	195.0	157.5	206.7	176.3
Capitalization Ratios				
Maximum debt service coverage ratio	2.0	1.9	1.4	3.2

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 on our website, www.valleymed.org. The Medical Center also files quarterly financial and statistical reports, as well as other required disclosures, with the Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA) at www.emma.msrb.org.

If you have questions about this report or need additional financial information, please contact the Medical Center's Finance Department by 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, 2010	DECEMBER 31, 2009
CURRENT ASSETS		
Cash and cash equivalents	$ 24,270,325	$ 27,645,292
Short-term investments	43,772,241	38,457,125
Accounts receivable, less allowance for uncollectible accounts of $29,568,136 in 2010 and $22,448,850 in 2009	39,868,006	35,142,257
Assets limited as to use, required for current obligations	26,579,567	23,347,921
Supplies inventory	4,540,800	4,142,705
Prepaid expenses and other assets	9,216,895	7,322,870
Total current assets	148,247,834	136,058,170
LONG-TERM INVESTMENTS	8,174,615	6,940,205
ASSETS LIMITED AS TO USE		
By board for general capital improvements	125,913,227	80,970,121
By board for self-insurance reserve funds	2,040,699	1,886,235
Under deferred compensation arrangements	3,550,144	3,410,680
Under revenue bond indenture agreements	7,365,741	6,355,940
Under general and limited general obligation bond agreements	580,434	625,096
	139,450,245	93,248,072
Less amounts required for current obligations	(26,579,567)	(23,347,921)
	112,870,678	69,900,151
CAPITAL ASSETS		
Land	13,299,496	8,286,029
Construction in progress	13,120,128	143,686,807
Depreciable capital assets, net of accumulated depreciation	321,134,142	194,163,288
	347,553,766	346,136,124
DEFERRED FINANCING COSTS	4,966,114	4,480,407
INVESTMENT IN AFFILIATE	2,190,066	1,744,814
Total assets	$ 624,003,073	$ 565,259,871

LIABILITIES AND NET ASSETS

	DECEMBER 31, 2010	DECEMBER 31, 2009
CURRENT LIABILITIES		
Warrants payable	$ 2,295,567	$ 4,229,841
Accounts payable	10,963,745	15,945,236
Accrued salaries, wages, and benefits	26,478,924	22,825,169
Estimated third-party payor settlements	750,000	400,000
Interest, patient refunds, and other payables	10,092,893	7,808,694
Current portion of long-term debt and capital lease obligations	6,317,304	6,461,028
Total current liabilities	56,898,433	57,669,968
DEFERRED COMPENSATION	2,806,399	2,436,531
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	340,978,682	291,952,172
Total liabilities	400,683,514	352,058,671
NET ASSETS		
Invested in capital assets, net of related debt	40,816,112	47,722,924
Restricted		
For debt service	7,946,175	6,981,036
Expendable for specific operating activities	331,777	341,733
Unrestricted	174,225,495	158,155,507
Total net assets	223,319,559	213,201,200
Total liabilities and net assets	$ 624,003,073	$ 565,259,871

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

	YEAR ENDED DECEMBER 31, 2010	2009
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $29,572,145 in 2010 and $29,014,974 in 2009)	$ 354,408,382	$ 331,547,530
Revenue from taxation	19,132,811	19,423,202
Other operating revenue	19,996,982	21,758,449
Total operating revenues	393,538,175	372,729,181
OPERATING EXPENSES		
Salaries and wages	165,075,284	153,161,787
Employee benefits	49,908,380	44,249,885
Supplies and other expenses	124,439,040	126,868,081
Depreciation	27,755,613	21,721,172
Interest and amortization	13,558,737	8,385,056
Total operating expenses	380,737,054	354,385,981
OPERATING INCOME	12,801,121	18,343,200
NONOPERATING INCOME (EXPENSE)		
Investment loss	(3,260,372)	(1,260,602)
Other, net	577,610	757,092
Net nonoperating income (expense)	(2,682,762)	(503,510)
INCREASE IN NET ASSETS	10,118,359	17,839,690
NET ASSETS, beginning of year	213,201,200	195,361,510
NET ASSETS, end of year	$ 223,319,559	$ 213,201,200

See accompanying notes.

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

	YEAR ENDED DECEMBER 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 350,032,633	$ 328,744,546
Payments to suppliers and contractors	(129,842,852)	(127,396,235)
Payments to employees	(210,960,041)	(201,081,250)
Other cash receipts	12,081,473	13,357,904
Net cash from operating activities	21,311,213	13,624,965
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from tax levy	19,177,473	19,317,795
Other	(9,956)	(7,262)
Net cash from noncapital financing activities	19,167,517	19,310,533
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of refunding bonds	86,300,000	
Proceeds from premium on refunding bonds	41,536	
Payment to refunding bond escrow agent	(34,447,327)	
Cash paid for bond issuance	(1,182,603)	
Principal payments on long-term debt and capital lease obligations	(3,249,405)	(6,847,402)
Interest paid, net of amounts capitalized	(13,375,723)	(8,001,397)
Purchases of capital assets	(29,941,265)	(68,425,471)
Other	587,566	764,354
Net cash from capital and related financing activities	4,732,779	(82,509,916)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions from joint venture	3,564,757	4,519,566
Cash provided by investments and assets whose use is limited	88,897,321	47,031,646
Deposits into investments and assets whose use is limited	(136,033,487)	(42,222,933)
Investment and interest income, net of amounts capitalized	3,905,500	4,088,697
Net cash from investing activities	(39,665,909)	13,416,976
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,545,600	(36,157,442)
CASH AND CASH EQUIVALENTS, beginning of year	28,427,924	64,585,366
CASH AND CASH EQUIVALENTS, end of year	$ 33,973,524	$ 28,427,924
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS		
Cash and cash equivalents	$ 24,270,325	$ 27,645,292
Cash and cash equivalents in assets limited as to use	9,703,199	782,632
	$ 33,973,524	$ 28,427,924

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

Increase (Decrease) in Cash and Cash Equivalents

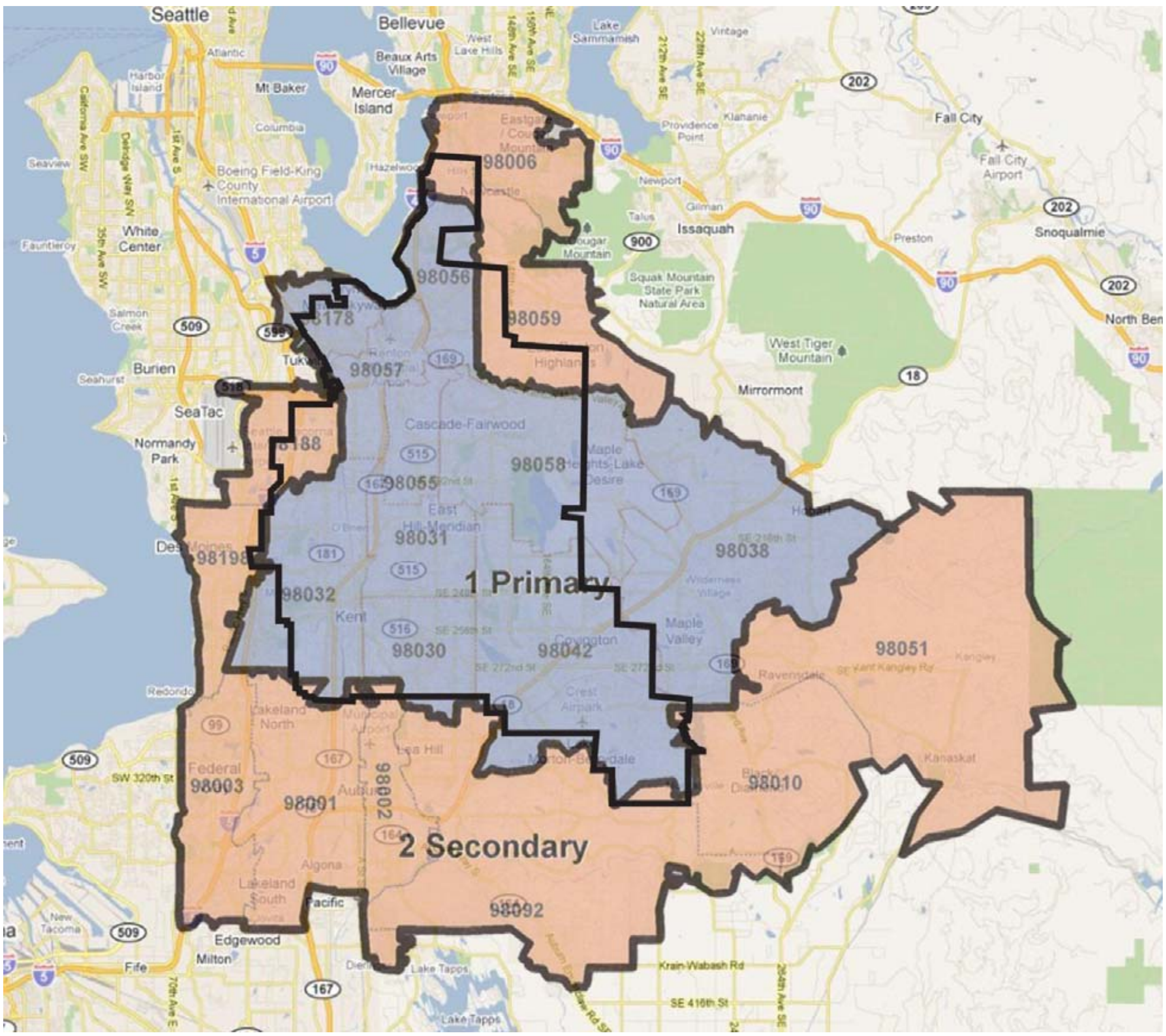
	YEAR ENDED DECEMBER 31, 2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 12,801,121	$ 18,343,200
Adjustments to reconcile operating income to net cash from operating activities		
Interest expense considered a capital financing activity	13,375,723	8,001,397
Revenue from tax levies considered a noncapital financing activity	(19,132,811)	(19,423,202)
Interest income considered an investing activity	(3,905,500)	(4,088,697)
Depreciation	28,239,308	22,147,204
Amortization	555,779	463,702
Provision for bad debts	29,572,145	29,014,974
Income recognized from joint venture	(4,010,009)	(4,311,848)
Changes in current assets and liabilities		
Accounts receivable	(34,297,894)	(31,817,958)
Supplies inventory	(398,095)	500,026
Prepaid expenses and other assets	(1,894,025)	(1,652,031)
Warrants payable	(1,934,274)	10,165
Accounts payable	(4,318,077)	4,095,870
Accrued salaries, wages, and benefits	3,653,755	(2,351,666)
Estimated third-party payor settlements	350,000	
Other liabilities	2,284,199	(3,988,259)
Deferred compensation	369,868	(1,317,912)
NET CASH FROM OPERATING ACTIVITIES	$ 21,311,213	$ 13,624,965
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Decrease in capital assets included in accounts payable	$ (663,414)	$ (5,840,368)
Capital assets acquired through new capital leases	$ 379,099	

See accompanying notes.

Note 1 - Organization and Mission Statement

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 all or a portion of the following cities: Kent, Renton, Covington, Newcastle, Tukwila, Bellevue, Maple Valley, Black Diamond, and SeaTac. It is the first and largest of the 56 public hospital districts in the state of Washington. The following is a map of the District:



Note 1 - Organization and Mission Statement (continued)

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 School of Medicine; 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.

Mission statement - Public Hospital District No. 1 of King County (also known as Valley Medical Center) is a healthcare network committed to improving the overall health of our community. Governed by publicly elected commissioners, we provide, in collaboration with our medical staff and community agencies, comprehensive quality care and service in a cost-effective and compassionate manner.

Note 2 - Summary of Significant Accounting Policies

Accounting standards - The Medical Center recognizes revenue and expenses on the accrual basis of accounting in accordance with the standards established by the Governmental Accounting Standards Board (GASB) and certain provisions in the *Audit and Accounting Guide for Health Care Organizations* published by 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 implemented this statement for 2010.

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 implemented this statement for 2010.

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.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* That statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* Statement No. 62 is effective for periods beginning after December 15, 2011. The Medical Center has not yet implemented this statement.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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. The Medical Center's depreciation and useful life policies use several methodologies in assigning depreciable lives to assets. If the construction cost is in excess of $5 million, a composite weighted life is computed using component useful lives provided by external consultants or by facility life analyses performed by external consultants.

Construction projects under $5 million and all equipment and information technology systems' useful lives are established by using the American Hospital Association guidelines. Depreciation 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	5-72 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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, and employee deferred compensation agreements. 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.

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 are 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, based upon actuarial analyses, for the ultimate costs for both reported claims and claims incurred but not reported.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Plant and construction funds - These funds account for land; buildings; equipment; and the proceeds of the 2001, 2004, and 2008 limited tax general obligation bonds. The District transfers sufficient taxation revenues to 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 Fund - Principal and interest payments on the series 2001, 2004, and 2008 bonds are made from this fund.

Revenue Bond Fund - This fund was established pursuant to Bond Resolution 943 and is used to pay the series 2010A and 2010B principal and interest payments.

2010 Refundable Credits Fund - Created pursuant to Bond Resolution 943, this fund receives all refundable credits (the subsidy), if any, from the U.S. Department of the Treasury in respect to the series 2010B Build America bonds. The District has irrevocably pledged the 2010 Refundable Credits to the payment of principal and interest on the series 2010B bonds only, and such funds will not be used for any other purpose.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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 2010 and 2009, measured by the Medical Center's standard charges, was $14,426,505 and $14,124,291, respectively.

Community programs - The District is a public health care provider established to meet the needs of the residents of greater South King County. Accordingly, services are provided to the community at no charge or for which only partial payments are received. The following is a summary of the District's community programs provided during the years ended December 31, 2010 and 2009:

	2010 (Unaudited)	2009 (Unaudited)
Uncompensated care	$ 29,572,145	$ 29,014,974
Traditional charity care	14,426,505	14,124,291
Community clinics and residency program	14,098,186	15,209,486
Other programs	6,353,341	6,510,045
Anesthesiologist, hospital, laborist, intensivist coverage	4,358,910	3,943,387
Emergency department call pay and subsidies	1,583,188	1,553,858
	$ 70,392,275	$ 70,356,041

Note 2 - Summary of Significant Accounting Policies (continued)

Net assets - Net assets of the Medical Center are classified into 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*.

Impairment of long-lived assets - Management evaluates whether there has been a significant unexpected decline in the utility of a capital asset that could indicate an impairment within that capital asset. If there is an indication the asset may be impaired, the Medical Center follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* to determine whether the impairment loss should be recognized. The amount of impairment, if any, is determined by comparing the historical carrying value of the asset to the valuation method that most appropriately reflects the decline in service utility of the capital asset. The Medical Center concluded no impairments existed as of December 31, 2010 and 2009.

Reclassifications - Certain amounts on the December 31, 2009, financial statements have been reclassified to conform to the December 31, 2010, 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 Medical Center 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 Medical Center'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 15 provides disclosure of certain subsequent events that did not result in recognition in the financial statements.

The Medical Center has evaluated subsequent events through April 11, 2011, 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.

Note 3 - Net Patient Service Revenue (continued)

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.

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. 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 $88.9 million and $89.7 million for 2010 and 2009, 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).

During the 2009 state legislative session, the state legislature requested the Washington State Department of Social and Health Services (DSHS) to create a professional services supplemental payment (PSSP) program for certain public hospitals within the state by no later than June 30, 2010, which DSHS accomplished. The Medical Center participates in the PSSP program. The payments made under the PSSP program are based upon the gap between the average commercial payment rate and the Medicaid rate. Authorization for the PSSP program is through June 30, 2011.

The state legislature, as part of the 2010 state legislative session, enacted a safety net assessment, which is used to augment funding from other sources and obtain additional federal funds to support increased payments to hospitals for Medicaid services. The legislation specifies assessment levels and payment increases. Assessments are based on non-Medicare patient days. As a CPE hospital, the Medical Center is not subject to the safety net assessment; however, the Medical Center receives the restored Medicaid rate.

Note 3 - Net Patient Service Revenue (continued)

Net revenue under the Medicaid program totaled approximately $47.3 million and $38.3 million for 2010 and 2009, respectively.

The Medical Center's estimates of final settlements to or from Medicare and Medicaid for all years through 2010 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.

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

	2010	2009
Gross patient service charges	$ 986,227,521	$ 895,926,103
Adjustments to patient service charges		
Contractual discounts	587,820,489	521,239,308
Provision for bad debts	29,572,145	29,014,974
Charity care	14,426,505	14,124,291
	631,819,139	564,378,573
Net patient service revenue	$ 354,408,382	$ 331,547,530

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 also has a formalized investment policy that provides that 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.

At December 31, 2010 and 2009, deposits and investments of the Medical Center consist of the following:

	2010	2009
Unrestricted cash and cash equivalents	$ 24,270,325	$ 27,645,292
Investments		
U.S. Treasury securities and bonds	50,516,763	43,967,237
Membership interest	1,430,093	1,430,093
	51,946,856	45,397,330
Assets whose use is limited		
Cash and cash equivalents	9,703,199	782,632
U.S. Treasury securities and bonds	80,778,563	42,525,173
U.S. Government mutual funds	42,797,207	44,018,256
Deferred compensation plan assets and other	6,171,276	5,922,011
	139,450,245	93,248,072
	$ 215,667,426	$ 166,290,694

Interest income included in other operating revenue totaled $3,905,500 and $4,088,697 for the years ended December 31, 2010 and 2009, respectively.

Note 4 - Investments and Deposits (continued)

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 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.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Medical Center's investment policy provides guidelines for its fund managers and lists specific allowable investments as prescribed by state law. The policy provides the ability of portfolio managers to employ varying investment styles so diversification can be maximized within statutory requirements.

Credit risk 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 bankers' 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, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3,* 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, 2010, 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.

Note 4 - Investments and Deposits (continued)

As of December 31, 2010, all impaired commercial paper investments have completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset for which the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities, and the residual investments in four commercial paper assets that were part of completed enforcement events for which the Impaired Pool accepted the cash-out option. The Medical Center's share of the Impaired Pool principal is $392,987 and the Medical Center's fair value of these investments is $180,467.

The composition of investments, valued at fair market value by investment type and rating at December 31, 2010, is as follows:

Investment Type	Fair Value	Ratings	% of Totals
Money market mutual fund	$ 21,621,546	AAA	10.50%
Commercial paper	749,861	A-1/P-1	0.36%
U.S. Treasuries	45,633,597	Exempt from disclosure	22.18%
U.S. Agencies	62,302,418	AAA	30.29%
U.S. Agency mortgages	7,707,788	AAA	3.75%
Tax-exempt issues	15,651,523	AAA	7.61%
U.S. Government mutual fund	43,008,817	AAA	20.91%
King County Investment Pool	4,035,530	Exempt from disclosure	1.96%
State (LGIP) Investment Pool	23,730	Exempt from disclosure	0.01%
Deferred comp plan assets	3,550,144	Exempt from disclosure	1.73%
Membership interest	1,430,093	Not rated	0.70%
Total	$ 205,715,047		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, 2010, for those investments that require composition disclosure, the Medical Center holds investments in U.S. Government-sponsored entities totaling 36% of its total investments in Federal National Mortgage Association securities, 36% of its total investments in Federal Home Loan Mortgage Corporation securities, 16% of its total investments in Federal Home Loan Bank securities, and 12% in Federal Farm Bureau securities.

Note 4 - Investments and Deposits (continued)

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).

In the individually managed portfolios (which include bond proceeds and tax revenues), 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.

As a way of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center's investment policy limits its investment portfolio to maturities as follows:

Issuer/Instrument	Maximum Length of Maturity
U.S. Treasury bonds, certificates, bills	10 years
Other obligations of the U.S. or its agencies	10 years
Mutual funds consisting of only U.S. Government bonds or U.S. guaranteed bonds	Average maturity < 4 years
Statutorily allowed certificates of deposit	24 months
Commercial paper	180 days
General obligation bonds of any state/local government	10 years

The Medical Center's investments in a U.S. Government mutual fund had a weighted-average duration of 2.6 years at December 31, 2010.

As of December 31, 2010, the Pool's average duration was .71 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.

Note 4 - Investments and Deposits (continued)

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, 2010, the weighted-average maturity was 55 days.

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 at December 31, 2010:

		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	$ 21,621,546	$ 21,621,546			
Commercial paper	749,861	749,861			
U.S. Treasuries	45,633,597	15,304,922	$ 20,719,814	$ 9,608,861	
U.S. Agencies	62,302,418	22,287,097	25,474,900	12,585,195	$ 1,955,226
U.S. Agency mortgages	7,707,788				7,707,788
Tax-exempt issues	15,651,523	6,606,262	9,045,261		
U.S. Government mutual fund	43,008,817			43,008,817	
King County Investment Pool	4,035,530	4,035,530			
State Investment Pool	23,730	23,730			
Deferred compensation plan assets	3,550,144			786,310	2,763,834
Membership interest	1,430,093				1,430,093
	$ 205,715,047	$ 70,628,948	$ 55,239,975	$ 65,989,183	$ 13,856,941

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.

The actual levy rate for 2010 was $.53 per $1,000 for a total regular levy of $19,472,394. The actual levy rate for 2009 was $.47 per $1,000 for a total regular levy of $19,525,826. In 2009, taxes collected were slightly less than those levied.

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, 2010 and 2009, were as follows:

	Beginning Balance January 1, 2010	Additions	Retirements	Account Transfers	Ending Balance December 31, 2010
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 8,286,029	$ 5,013,467			$ 13,299,496
Construction in progress	143,686,807	20,724,735		$ (151,291,414)	13,120,128
Total nondepreciable capital assets	151,972,836	25,738,202		(151,291,414)	26,419,624
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,043,673	92,650		7,021,755	18,158,078
Buildings and leasehold improvements	239,730,371	1,421,855	$ (3,110)	120,389,291	361,538,407
Equipment					
Fixed	26,672,775	179,121		662,160	27,514,056
Major movable	113,422,291	1,728,611	(534,846)	21,276,004	135,892,060
Minor	9,659,587	496,511	(34,981)	1,942,204	12,063,321
LESS ACCUMULATED DEPRECIATION					
Land improvements	(9,217,791)	(464,015)			(9,681,806)
Buildings and leasehold improvements	(92,779,010)	(11,475,546)	3,110		(104,251,446)
Equipment					
Fixed	(19,851,408)	(1,045,625)			(20,897,033)
Major movable	(79,011,656)	(14,343,895)	534,846		(92,820,705)
Minor	(5,505,544)	(910,227)	34,981		(6,380,790)
Depreciable capital assets, net	194,163,288	(24,320,560)	-	151,291,414	321,134,142
Capital assets, net	$ 346,136,124	$ 1,417,642	$ -	$ -	$ 347,553,766

	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)

The Medical Center capitalized interest costs of $4,377,834 and $7,791,643 during the years ended December 31, 2010 and 2009, respectively. The Medical Center also capitalized interest income of $283,527 and $454,877 during the years ended December 31, 2010 and 2009, respectively.

Property and equipment also include certain capitalized labor incurred to ready such property and equipment for use. Capitalized labor related to information technology and internally generated computer software is capitalized only during the application development stage. Management has explicitly authorized and committed the funding for such capitalized labor in its annual capital and operating budgets.

Depreciation expense of operating assets for the years ended December 31, 2010 and 2009, was $27,756,023 and $21,721,172, respectively.

Included in major movable equipment at December 31, 2010 and 2009, is $800,265 and $2,934,534, respectively, of equipment under capital lease. Accumulated amortization of the equipment under capital lease totaling $350,543 and $2,436,718 is included in accumulated depreciation at December 31, 2010 and 2009, respectively.

During the years ended December 31, 2010 and 2009, the Medical Center retired approximately $573,000 and $1,457,000, 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, 2010 and 2009, which is accounted for using the equity method of accounting. For the years ended December 31, 2010 and 2009, the Medical Center recognized $4,010,009 and $4,311,848, respectively, of other operating revenue for its share of net income earned by IPV. Additionally, the Medical Center received cash distributions of $3,564,757 and $4,519,566, respectively, from IPV for the years ended December 31, 2010 and 2009. The Medical Center's recorded investment in IPV was $2,190,066 and $1,744,814, as of December 31, 2010 and 2009, respectively, and is included in investment in affiliate in the Medical Center's financial statements.

Note 7 - Investment in Affiliate (continued)

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

	2010	2009
Cash and cash equivalents	$ 1,020,000	$ 1,027,466
Other current assets	1,532,292	1,663,809
Property, plant, and equipment, net	1,785,433	543,778
	$ 4,337,725	$ 3,235,053
Current liabilities	$ 1,049,637	$ 1,410,060
Noncurrent liabilities	770,187	
Equity	2,517,901	1,824,993
	$ 4,337,725	$ 3,235,053
Revenues	$ 14,236,297	$ 15,955,088
Expenses	(9,207,382)	(10,524,237)
Net income	$ 5,028,915	$ 5,430,851

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

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. The joint venture ended in 2009. Through this agreement, the two parties jointly funded, coordinated, and participated in administrative activities, the 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 were 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 was 48%, which was accounted for using the equity method of accounting. For the years ended December 31, 2010 and 2009, the Medical Center recorded gains of $0 and $581,761, respectively, related to this joint venture, which was 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, 2010 and 2009, the Medical Center had net income prior to management fees of $2,644,000 and $3,244,148, respectively, related to this program, which is included in operating income.

Note 8 - Long-Term Debt and Capital Lease Obligations

The District was obligated under long-term debt as of December 31, as follows:

	2010	2009
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.	$ 216,890,316	$ 216,832,712
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.	37,413,033	39,627,510
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.	7,682,168	8,229,714
Revenue bonds		
2010 series A, 3.00% to 5.00%, due serially in June, in amounts from $1,335,000 in 2011 to $2,395,000 in 2024, plus interest due semi-annually, net of unamortized premium of $39,992 and unamortized loss on refinance of $1,513,857.	23,671,135	
1998 series, 4.75% to 5.75%, refunded during 2010.		19,770,813
1997 series, 5.25%, refunded during 2010.		13,372,811
Build America bonds		
2010 series B, 7.90% to 8.00%, due serially in June, in amounts from $2,520,000 in 2025 to $5,485,000 in 2040, plus interest due semi-annually.	61,155,000	
Long-term debt	346,811,652	297,833,560
Capital lease obligations, stated at present value of future minimum lease payments	484,334	579,640
	347,295,986	298,413,200
Less current portion	(6,317,304)	(6,461,028)
Long-term portion of debt and capital lease obligations	$ 340,978,682	$ 291,952,172

Under the terms of its financing agreements, the District has agreed to meet certain covenants. Bond covenants related to the Limited Tax General Obligation (LTGO) bonds require including in the Medical Center's budgets and making annual levies of taxes, within constitutional and statutory tax limitations provided by law upon all property within the District subject to taxation, together with any other money legally available, to be sufficient to pay the principal and interest of the LTGO bonds.

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

Financing covenants associated with the District's revenue bonds require maintaining an amount within the Reserve Account (a subaccount within the Revenue Bond Fund) equal to the reserve requirement for all covered revenue bonds (the 2010 series only). That amount is equal to the lesser of the maximum annual debt service with respect to the 2010 bond series, an aggregate of the sum of 10% of the initial principal amount of the 2010 bond series, or 125% of the average annual debt service on the 2010 bond series.

Additional covenants require continued disclosure through the Municipal Securities Rulemaking Board and compliance with limits of encumbrances, indebtedness, disposition of assets, and transfer services.

Management is not aware of any violations with its debt covenants.

2010 Revenue Bond Issue

The series 2010 bonds were issued in two subseries. On June 23, 2010, the District issued $25,145,000 in federally tax-exempt revenue bonds (series 2010A) and $61,155,000 in federally taxable revenue Build America bonds (BABs) (series 2010B). Both series are fixed rate.

The series 2010A bonds were used to refund and defease all of the series 1997 bonds and the eligible portion of the series 1998 bonds, as well as acquire District Hospital facilities and land. $9,240,000 of the series 1998 bonds could not be legally advance refunded with tax-exempt obligations proceeds. Consequently, the District used its own operational funds to cash defease that portion of the series 1998 bonds.

To refund and defease the series 1997 bonds and the eligible series 1998 bonds, the District irrevocably deposited a portion of the series 2010A bond proceeds, along with District funds, into an escrow fund held by an escrow agent. Upon such deposit, on June 23, 2010, the series 1997 bonds and eligible series 1998 bonds were deemed defeased and are no longer outstanding.

The series 2010A serial bonds of $16,255,000 were issued with interest rates ranging from 3.00% to 5.00% at yields of 1.88% to 4.85%, maturing between 2011 and 2020. An $8,890,000 5.125% term bond is due in 2024.

The series 2010B term BABs were issued to construct, renovate, remodel, and equip projects at the Medical Center and satellite facilities, including completion of the top floors of the Medical Center's recently constructed Emergency Services Tower and the construction of a freestanding emergency department within the District's boundaries. The series 2010B term BABs of $61,155,000 were issued with interest rates ranging from 7.9% to 8.0% and mature in 2030 and 2040.

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

Although the refunding of the 1997 and 1998 series resulted in an increase in cash flow requirements of $5.2 million between the defeased debt and the newly issued debt, the Medical Center obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $3.6 million.

2008 Bond Issue

The District issued $218,220,000 in limited tax general obligation and refunding bonds, series 2008A and 2008B, in March 2008. The 2008 series refunded two prior bond series, the 2005 revenue bonds and the 2006 limited tax general obligation series A and B bonds.

Series 2008A is for $113,315,000 and comprises $97,745,000 5.0%-5.25% term bonds, 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.

Long-term debt and capital lease obligations activity summary for 2010 and 2009 is as follows:

	Beginning Balance January 1, 2010	Additions	Reductions	Ending Balance December 31, 2010	Amounts Due Within One Year
Limited tax general obligation bonds					
2008 series	$ 216,832,712		$ (57,604)	$ 216,890,316	$ 1,185,000
2004 series	8,229,714		547,546	7,682,168	1,000,000
2001 series	39,627,510		2,214,477	37,413,033	2,625,000
Revenue bonds					
2010 series A		$ 23,542,610	(128,525)	23,671,135	1,335,000
1998 series	19,770,813		19,770,813		
1997 series	13,372,811		13,372,811		
Build America bonds					
2010 series B		61,155,000		61,155,000	
Capital lease obligations	579,640	379,099	474,405	484,334	172,304
Total long-term debt and capital lease obligations	298,413,200	85,076,709	36,193,923	347,295,986	6,317,304
Deferred compensation	2,436,531		(369,868)	2,806,399	
Total noncurrent liabilities	$ 300,849,731	$ 85,076,709	$ 35,824,055	$ 350,102,385	$ 6,317,304

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

	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

A summary of future maturities on long-term debt for the next five years and thereafter, as of December 31, 2010, using the new fixed interest rate, for both principal and interest, is presented below:

	Principal	Interest
2011	$ 6,145,000	$ 19,444,869
2012	6,395,000	19,195,000
2013	6,705,000	18,884,100
2014	7,050,000	18,541,963
2015	7,385,000	18,199,650
Amounts due 2016 - 2020	42,480,000	85,459,051
Amounts due 2021 - 2025	54,325,000	73,577,653
Amounts due 2026 - 2030	70,150,000	56,467,336
Amounts due 2031 - 2035	90,345,000	33,927,000
Amounts due 2036 - 2040	58,655,000	7,792,288
	349,635,000	$ 351,488,910
Plus amount representing net unamortized bond discounts and premiums	1,944,366	
Less amount representing unamortized losses on refinancings	(4,767,714)	
	$ 346,811,652	

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

Capital leases - The Medical Center acquired certain equipment under capital lease obligations. The imputed interest rate on the equipment under capital lease is 3.5%. These leases are collateralized by the related equipment. Future minimum lease payments and the present value of net minimum lease payments are as follows:

2011	$ 198,116
2012	141,239
2013	84,923
2014	84,815
2015	22,084
Total minimum lease payments	531,177
Less amount representing interest	(46,843)
Present value of capital lease payments	484,334
Less current portion	(172,304)
	$ 312,030

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 2010 and 2009, and there was no outstanding balance as of December 31, 2010 or 2009.

Note 9 - Professional Liability Claims

The Medical Center purchases insurance from a third-party insurance carrier. 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.

Note 10 - Retirement Plans (continued)

Employer contributions to the plan were $11,120,877 and $9,903,799 for the years ended December 31, 2010 and 2009, 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 $559,024 and $492,075 for the years ended December 31, 2010 and 2009, 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 $5,989,118 and $5,514,124 for the years ended December 31, 2010 and 2009, 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.

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 - 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:

	2010	2009
Medicare	21%	24%
Medicaid	17%	14%
Blue Shield/Regence	12%	11%
PPO/First Choice	7%	8%
Blue Cross/Premera	5%	7%
Patient	17%	12%
Commercial	11%	10%
Other third-party payors	10%	14%
	100%	100%

Note 12 - 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, 2010:

2011	$ 12,602,000
2012	12,082,000
2013	10,059,000
2014	6,938,000
2015	6,415,000
2016 - 2019	10,062,000
Total minimum lease payments	$ 58,158,000

Rent expense on operating leases for 2010 and 2009 was $10,568,000 and $8,977,000, 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.

Note 12 - Commitments and Contingencies (continued)

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 its 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.

Construction and information technology commitments - The Medical Center has committed to various construction and equipment projects, as well as significant information technology implementations, including a new electronic medical record system, in 2011 and beyond. As of December 31, 2010, the future commitments for these projects total $32.4 million.

Collective bargaining agreements - The Medical Center has a total of approximately 2,650 employees. Of this total, approximately 73% are covered under one of the Medical Center's collective bargaining agreements as of December 31, 2010.

Note 13 - 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 value of investments. The fair value is 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 14 - 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 2001, 2004, and 2008 to finance construction, other capital improvements, medical equipment and technology, and information technology systems.

Note 15 - Subsequent Events

1. On January 18, 2011, the District's Board of Commissioners voted unanimously to explore a strategic alliance with University of Washington Medicine (UW Medicine). On that same date, the District and UW Medicine, signed a nonbinding letter of intent to explore the feasibility of a strategic alliance. Under the proposed alliance, the District continues as a separate legal entity. The District would continue ownership of its Medical Center (hospital and clinic network), and all other assets and liabilities. Employees would continue to work for the District. The District's Board of Commissioners would continue as it currently exists.

   Once the alliance was established, the Medical Center would be managed as a component of UW Medicine, subject to the oversight of a newly created board composed of the District Commissioners, additional appointed representatives from the District's area, and UW Medicine. As of January 19, 2011, due diligence was substantially under way.

   Such a strategic alliance would require approval from the governing bodies of both the District and UW Medicine. If the requisite support and approvals are obtained, the District and UW Medicine would implement the strategic alliance at the beginning of the third quarter 2011.

2. In January 2011, the Medical Center entered into an information technology contract with a third-party vendor to implement a new electronic health record (EHR) system throughout the hospital and clinic network. The first phase of the EHR is anticipated to go live in mid-2012, with full implementation system-wide by the end of 2012. The total estimated expenditures related to the EHR implementation over the next 2 years are approximately $47.0 million.

3. In February 2011, the Medical Center filed an appeal with the Washington State Department of Health (DOH) related to a Certificate of Need (CON). On December 21, 2010, the DOH denied the Medical Center's request for an additional 60 beds to the main hospital campus. The Medical Center's CON appeal requests consideration for granting 30 additional beds to the main hospital campus. A final determination is anticipated during 2011.

4. In March 2011, the Medical Center purchased an infusion center from a private physician organization for approximately $3.8 million and entered into a professional services agreement for providers and professional services.

SUPPLEMENTAL INFORMATION

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTAL INFORMATION

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

Our report on our audit of the basic financial statements of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center, for 2010 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on page 56 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Everett, Washington
April 11, 2011

PUBLIC HOSPITAL DISTRICT NO. 1
OF KING COUNTY, WASHINGTON
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2010 (UNAUDITED)

	Budget	Actual	Variance
OPERATING REVENUES			
Net patient service revenue (net of provision for bad debts)	$ 355,413,916	$ 354,408,382	$ (1,005,534)
Revenue from taxation	19,468,500	19,132,811	(335,689)
Other operating revenue	20,867,045	19,996,982	(870,063)
Total operating revenues	395,749,461	393,538,175	(2,211,286)
OPERATING EXPENSES			
Salaries and wages	166,783,044	165,075,284	(1,707,760)
Employee benefits	47,836,783	49,908,380	2,071,597
Supplies and other expenses	131,230,631	124,439,040	(6,791,591)
Depreciation	27,957,024	27,755,613	(201,411)
Interest and amortization	13,254,952	13,558,737	303,785
Total operating expenses	387,062,434	380,737,054	(6,325,380)
OPERATING INCOME	8,687,027	12,801,121	4,114,094
NONOPERATING INCOME (EXPENSE)			
Investment loss		(3,260,372)	(3,260,372)
Other, net	749,367	577,610	(171,757)
Net nonoperating income (expense)	749,367	(2,682,762)	(3,432,129)
INCREASE IN NET ASSETS	9,436,394	10,118,359	681,965
NET ASSETS, beginning of year	213,201,200	213,201,200	
NET ASSETS, end of year	$ 222,637,594	$ 223,319,559	$ 681,965