



Report of Independent Auditors
and Financial Statements for

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

December 31, 2011 and 2010

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the balance sheets of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District), as of December 31, 2011 and 2010, 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 audits 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. 2, Snohomish County, Washington dba Verdant Health Commission, as of December 31, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Everett, Washington
April 23, 2012

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis for Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District), provides an overview of the District's financial activities for the years ended December 31, 2011 and 2010. Please read it in conjunction with the District's financial statements, which follow this analysis.

Using These Basic Financial Statements

The District's financial statements consist of three statements: a balance sheet; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The activities of the Stevens Foundation are included in the District's financial statements through August 31, 2010. These financial statements and related notes provide information about the financial activities of the District.

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

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

The Statement of Cash Flows

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

The Transition of Operations, Effective September 1, 2010

Until September 1, 2010, Public Hospital District No. 2, Snohomish County, Washington, owned and operated Stevens Hospital. Through a lease and operating agreement, on September 1, 2010, Swedish Health Services, a nonprofit corporation, took over operation of the hospital and renamed it Swedish/Edmonds. This transition significantly changed the role of the District. The District retained ownership of the hospital but will no longer manage its operations and will instead be a landlord to Swedish Health Services. As of December 31, 2011, Swedish Health Services had paid \$9.7 million in total lease payments to the District for the use of real property and personal assets owned by the District.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The Transition of Operations, Effective September 1, 2010 (continued)

The negotiated agreement terms for use of the hospital by Swedish Health Services are for 30 years, with options to renew, wherein the District will receive monthly lease payments that increase 3.0% per year for the first 15 years, after which time the monthly payments will be steady for the remainder of the agreement. Additionally, Swedish Health Services agrees to invest a minimum of \$90.0 million into District capital improvements over the course of the first 10 years, with no less than \$6.0 million per year in each of those 10 years.

The District will maintain investments sufficient to take back the operation of the hospital in the event of default by Swedish Health Services or some other extraordinary event. This transition significantly impacted many of the balance sheet accounts for the year ending December 31, 2010, and along with the long-term agreement with Swedish Health Systems, significantly improves the short- and long-term financial viability of the District.

The Verdant Health Commission

As of September 1, 2010, the District began doing business as South Snohomish County Commission for Health (SSCCFH). The SSCCFH name was changed in 2011 by a vote of the commissioners to the Verdant Health Commission (Verdant). Verdant is governed by the board of five elected commissioners. The mission of Verdant is to improve the health and well-being of our community. This mission will be completed by contracting for services with local organizations, businesses, and government agencies, and the establishment of Verdant-operated initiatives. Long-term financial stability will be established by investing available revenues received from Swedish Health Systems, as well as ongoing tax levy revenues, into allowable government funds, thus building adequate reserves over the next 10 years.

Verdant began accepting funding proposals in June of 2011 in four health priority areas: Education and Empowerment, Prevention, Access to Healthcare Services, and Policy and Advocacy. Funds are available for one-time uses like events and short-term needs in the community, as well as for ongoing health and wellness programs. Verdant paid out \$296,546 in community program investments during 2011, which represents \$1.5 million of funding on an annualized basis for ongoing programs. Each program is managed through a cooperative agreement with partners, and is being monitored for performance and compliance by Verdant staff.

Some of the programs approved in 2011 include childhood obesity prevention programs, an emergency room diversion program targeting low-income residents, free counseling for teenagers, and senior wellness programs. Recipients of services include seniors, youth, and uninsured members of our community. In all, programs approved for funding in 2011 are expected to serve 4,100 South Snohomish County residents.

Looking to the future, Verdant will continue funding effective and sustainable community health programs, as well as convening stakeholders to develop new initiatives that address key community health and wellness needs. Verdant will also continue partnerships and support community providers and employers to improve the health and well-being of South Snohomish County residents.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Balance Sheet

The District's net assets are the difference between its assets and liabilities as reported in the balance sheet (in thousands).

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets	\$ 38,132	\$ 31,009	\$ 44,034
Capital assets, net	31,219	37,012	40,266
Other noncurrent assets	<u>4,129</u>	<u>2,716</u>	<u>8,448</u>
Total assets	<u>\$ 73,480</u>	<u>\$ 70,737</u>	<u>\$ 92,748</u>
Liabilities			
Current liabilities	\$ 5,349	\$ 5,639	\$ 24,451
Long-term debt, net	7,000	9,030	18,401
Other long-term liabilities	<u>566</u>	<u>4,042</u>	<u>7,768</u>
Total liabilities	<u>12,915</u>	<u>18,711</u>	<u>50,620</u>
Net assets			
Invested in capital assets, net of related debt	22,214	24,553	17,235
Restricted			
For debt service	238	323	1,655
Expendable for specific activities	-	-	55
Unrestricted	<u>38,114</u>	<u>27,150</u>	<u>23,183</u>
Total net assets	<u>60,566</u>	<u>52,026</u>	<u>42,128</u>
Total liabilities and net assets	<u>\$ 73,481</u>	<u>\$ 70,737</u>	<u>\$ 92,748</u>

Current Assets

Total current assets of \$38.1 million at year-end 2011 reflect an increase of \$7.1 million (23.0%), compared to the balance of 31.0 million at the end of 2010. Cash and short-term investments increased by \$23.3 million (173.7%) in 2011, compared to a decrease of \$2.8 million (17.1%) in 2010.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Balance Sheet (continued)

Capital Assets

The District's net capital assets decreased \$5.8 million (15.7%) in 2011, compared to a net decrease of \$3.3 million (8.1%) in 2010. This decrease is primarily a result of depreciation. No major additions were acquired in 2011. Major movable assets totaling \$1.2 million were assigned to Swedish Health Services when transfer of the hospital operations occurred on September 1, 2010. During 2010, the District purchased equipment and completed minor capital projects. Major additions are listed below:

- Soarian HIM Software Upgrade
- PET CT Scanner Installation
- Stryker Surgical Towers
- Rapid Medical Evaluation Project in the Emergency Room
- 3rd Floor Lobby Upgrades
- Dietary Room Service Conversion

Other Noncurrent Assets

Other noncurrent assets totaled 4.1 million at year-end 2011, an increase of \$1.4 million (52.0%) from \$2.7 million in 2010. This total includes nearly \$4.1 million in deferred rent, up from \$1.3 million in 2010. The deferred rent results from the 30-year lease of the hospital to Swedish Health Services.

Current Liabilities

Current liabilities decreased \$0.3 million (5.2%) from \$5.6 million in 2010 to \$5.3 million in 2011. Accrued salaries and benefits increased by \$0.8 million, while accounts payable decreased by \$0.5 million. On September 1, 2010, \$5.8 million of hospital-related accounts payable and \$3.9 million of accrued salaries and benefits were transferred to Swedish Health Services. Estimated third-party payor settlements increased \$0.9 million to \$1.2 million due to an unexpected Washington State fiscal-year 2010 interim CPE settlement payment.

Long-Term Debt

As of December 31, 2011, the District had \$7.0 million in long-term debt and obligations under capital leases, net of current portion, which is a \$2.0 million (22.5%) decrease from 2010. Principal payments during 2011 totaled \$3.4 million. Outstanding 2003 UTGO refunding bonds were paid in full during 2011.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Balance Sheet (continued)

Other Long-Term Liabilities

Other noncurrent liabilities decreased by \$3.5 million (86.0%) in 2011, as compared to \$3.7 million in 2010 (48.0%). A \$1.1 million transfer from long-term liability to current liability for a deferred compensation payment to a former hospital CEO made up a portion of this reduction.

Operating Results and Changes in the District's Net Assets

In 2011, the District's net assets increased \$8.5 million (16.4%), compared to an increase of \$9.9 million (23.5%) in 2010.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues			
Lease revenue	\$ 10,390	\$ 3,462	\$ -
Operating expenses			
Salaries and benefits	462	80	-
Program expenditures	298	-	-
Other	834	512	-
Depreciation	5,786	2,097	-
Total operating expenses	<u>7,380</u>	<u>2,689</u>	<u>-</u>
Operating income	<u>3,010</u>	<u>773</u>	<u>-</u>
Nonoperating revenues (expenses)			
Tax levies	3,196	4,193	4,127
Investment income	1,934	674	697
Interest expense and amortization	(345)	(1,001)	(1,437)
Noncapital grants and contributions	-	63	43
Income from operating hospital	-	1,927	11,541
Other income	745	3,212	465
Net nonoperating revenues	<u>5,530</u>	<u>9,068</u>	<u>15,436</u>
Excess of revenues over expenses before capital grants and contributions	8,540	9,841	15,436
Capital grants and contributions	<u>-</u>	<u>57</u>	<u>254</u>
Increase in net assets	8,540	9,898	15,690
Net assets, beginning of year	<u>52,026</u>	<u>42,128</u>	<u>26,438</u>
Net assets, end of year	<u>\$ 60,566</u>	<u>\$ 52,026</u>	<u>\$ 42,128</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Operating Results and Changes in the District's Net Assets (continued)

Operating revenues in 2011 totaling \$10.4 million were attributed to lease payments. \$7.3 million was from Swedish Health Services as compared to \$2.4 million for the last four months of 2010. Additional lease revenues were received from other lease agreements including Value Village and Healthcare Reality.

Overall operating costs of \$7.4 million at year-end 2011 reflect an increase of \$4.9 million (174.5%) compared to the balance of \$2.7 million at the end of 2010. Salaries and benefits totaled \$462,290 compared to only \$79,862 in 2010. Program investment expenditures totaled \$297,736 in 2011. No programs had been implemented in 2010. Depreciation made the largest impact on operating expenses in 2011 totaling \$5.8 million as compared to \$2.1 million in 2010, an increase of 175.9%.

Net nonoperating revenues for 2011 were \$5.5 million, compared to \$9.1 million in 2010. The \$3.5 million (39.0%) decrease relates primarily to the change in service from a hospital to a leasing company. Investment income at year-end 2011 was \$1.9 million, an increase of \$1.3 million (186.9%) over 2010.

Contacting the District's Financial Management

This financial report is designed to provide our taxpayers, suppliers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's finance office at PO Box 2606, Lynnwood, Washington 98036.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
BALANCE SHEETS**

ASSETS

	December 31,	
	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,593,972	\$ 1,809,626
Investments	35,054,113	11,582,063
Transaction receivable	-	17,024,702
Other receivables	1,098	71,751
Prepaid expenses and other	1,243,971	197,519
Assets whose use is limited	238,455	322,998
Total current assets	38,131,609	31,008,659
CAPITAL ASSETS		
Nondepreciable capital assets	3,996,406	3,996,406
Depreciable capital assets, net of accumulated depreciation	27,222,344	33,015,195
CAPITAL ASSETS, net of accumulated depreciation	31,218,750	37,011,601
DEFERRED FINANCING COSTS, net of accumulated amortization	79,816	99,254
DEFERRED RENT	4,050,062	1,252,933
OTHER ASSETS	-	1,364,738
Total assets	\$ 73,480,237	\$ 70,737,185

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 2,005,037	\$ 3,428,377
Accounts and warrants payable	334,498	847,580
Accrued salaries and benefits	1,248,013	367,766
Estimated self-insured liabilities	565,648	663,471
Estimated third-party payor settlements	1,195,473	327,719
Interest payable	-	4,331
Total current liabilities	5,348,669	5,639,244
LONG-TERM DEBT, net of current portion	7,000,000	9,030,067
OTHER LONG-TERM LIABILITIES	565,649	4,041,974
Total liabilities	12,914,318	18,711,285
NET ASSETS		
Invested in capital assets, net of related debt	22,213,713	24,553,157
Restricted for debt service	238,455	322,998
Unrestricted	38,113,751	27,149,745
Total net assets	60,565,919	52,025,900
Total liabilities and net assets	\$ 73,480,237	\$ 70,737,185

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	Years Ended December 31,	
	2011	2010
OPERATING REVENUES		
Lease revenue	\$ 10,389,975	\$ 3,461,994
OPERATING EXPENSES		
Salaries and wages	354,137	5,283
Employee benefits	108,153	74,579
Program expenditures	297,736	-
Professional services	588,811	413,362
Other	244,802	99,099
Depreciation	5,786,321	2,096,551
Total operating expenses	7,379,960	2,688,874
Operating income	3,010,015	773,120
NONOPERATING REVENUES (EXPENSES)		
General obligation tax levy	1,164,262	2,199,847
Maintenance and operations tax levy	2,031,611	1,993,095
Investment income	1,934,442	673,950
General obligation interest expense and amortization	(31,921)	(88,717)
Other interest expense and amortization	(313,302)	(912,705)
Noncapital grants and contributions	-	62,554
Income from operating hospital	-	1,926,801
Other income	744,912	3,212,287
Net nonoperating revenues	5,530,004	9,067,112
Excess of revenues over expenses before capital grants and contributions	8,540,019	9,840,232
CAPITAL GRANTS AND CONTRIBUTIONS	-	57,535
Increase in net assets	8,540,019	9,897,767
NET ASSETS, beginning of year	52,025,900	42,128,133
NET ASSETS, end of year	\$ 60,565,919	\$ 52,025,900

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
STATEMENTS OF CASH FLOWS**

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for patient services and other operations	\$ 7,674,011	\$ 117,951,952
Cash paid to employees	(295,484)	(69,692,242)
Cash paid to suppliers for goods and services	(2,566,814)	(47,292,261)
Net cash from operating activities	<u>4,811,713</u>	<u>967,449</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from maintenance and operations tax levy for noncapital purposes	1,015,632	500,419
Noncapital grants and contributions	-	62,554
Principal payments on noncapital long-term debt	(40,000)	(40,000)
Interest paid on noncapital long-term debt	(1,395)	(1,469)
Payments on notes payable	-	(953,360)
Cash received from (transferred to) Swedish Health Services	17,024,702	(206,876)
Other, net	(7,372)	1,614,186
Net cash from noncapital financing activities	<u>17,991,567</u>	<u>975,454</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and contributions	-	57,535
Principal payments on long-term debt	(3,394,046)	(9,708,738)
Interest paid on long-term debt	(348,082)	(987,967)
Cash received from maintenance and operations tax levy for capital	1,034,876	1,470,411
Cash received from general obligation tax levy for capital	1,210,860	2,136,679
Proceeds from sale of capital assets	-	39,497
Acquisition and construction of capital assets	(3,982)	(4,654,018)
Net cash from capital and related financing activities	<u>(1,500,374)</u>	<u>(11,646,601)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments, net	(22,606,195)	7,620,493
Distributions from joint ventures	-	512,208
Contributions to joint ventures	-	(57,534)
Investment income	1,087,324	906,349
Net cash from investing activities	<u>(21,518,871)</u>	<u>8,981,516</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(215,965)	(722,182)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,810,094</u>	<u>2,532,276</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,594,129</u>	<u>\$ 1,810,094</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and cash equivalents	\$ 1,593,972	\$ 1,809,626
Cash and cash equivalents in assets whose use is limited	157	468
	<u>\$ 1,594,129</u>	<u>\$ 1,810,094</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
STATEMENTS OF CASH FLOWS (continued)**

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 3,010,015	\$ 773,120
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	5,786,321	6,408,047
Provision for bad debts	-	15,091,885
Equity in earnings of unconsolidated joint ventures	-	(1,918,027)
Loss on disposal of capital assets	10,512	12,181
Income from operating hospital	-	1,926,801
Changes in assets and liabilities		
Accounts receivable, net	-	(14,577,319)
Other receivables	70,653	(90,698)
Supplies inventory	-	(37,761)
Prepaid expenses and other	318,286	1,038,218
Deferred rent	(2,797,129)	(1,252,933)
Estimated third-party payor settlements, net	-	677,719
Accounts and warrants payable	(207,675)	(3,492,077)
Accrued salaries and benefits	880,247	(2,976,251)
Other long-term liabilities	(2,259,517)	(615,456)
Net cash from operating activities	<u>\$ 4,811,713</u>	<u>\$ 967,449</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH NONCAPITAL FINANCING ACTIVITIES		
Net noncash net assets transferred and assigned in exchange for transaction receivable from Swedish Health Services	<u>\$ -</u>	<u>\$ 16,817,826</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Organization and Summary of Accounting Policies

Organization - Until September 1, 2010, Public Hospital District No. 2 of Snohomish County, Washington dba Verdant Health Commission (the District), a Washington municipal corporation, owned and operated Stevens Hospital (the Hospital) located in Edmonds, Washington. The Hospital is an acute care community hospital with 156 set-up beds. As of September 1, 2010, the District continued doing business as Verdant Health Commission. The District is governed by the board of five elected commissioners. The mission of the District is to improve the health and well-being of the community. This mission will be completed by contracting for services with local partners, businesses, and government agencies. Long-term financial stability will be established by investing available revenues received from Swedish Health Systems, as well as tax levy revenues, into allowable government funds, thus building adequate reserves over the next 10 years.

On March 4, 2010, the District entered into an agreement to lease and operate the Hospital (the Agreement) with Swedish Health Services (SHS), a nonprofit corporation that calls for a long-term lease of all the facilities and operations of the Hospital that were previously operated by the District. SHS renamed the Hospital Swedish/Edmonds. As part of this agreement, the District transferred and assigned certain assets and liabilities to Swedish/Edmonds on September 1, 2010, in exchange for cash considerations of \$17,024,702, which were paid on March 28, 2011. This includes transfer of control of Stevens Foundation (the Foundation), which was organized and formally incorporated as a 501(c)(3) tax-exempt organization. The transferred and assigned assets and liabilities for both the Hospital and the Foundation were as follows at August 31, 2010:

ASSETS	
Cash	\$ 206,876
Accounts receivable, net of estimated uncollectibles	20,143,181
Other receivables	2,108,419
Supplies inventory	2,312,272
Prepaid expenses and other	880,340
Temporarily restricted assets of Stevens Foundation	99,889
Nondepreciable capital assets	14,671
Depreciable capital assets, net of accumulated depreciation	1,434,480
Other assets	<u>2,634,375</u>
Total assets	<u>29,834,503</u>
LIABILITIES	
Accounts payable	5,781,533
Accrued salaries and benefits	3,911,269
Other accrued expenses	777,104
Long-term debt and obligations under capital leases	770,452
Other long-term liabilities	<u>1,569,443</u>
Total liabilities	<u>12,809,801</u>
Net assets transferred and assigned	<u><u>\$ 17,024,702</u></u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

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

In conjunction with the Agreement between the District and SHS, a lease and operating agreement (the Lease) was executed between the District and Swedish/Edmonds, which was dated and effective September 1, 2010. This agreement represents a lease of the District's hospital facility, equipment, and health care delivery system. The leased assets are included in the balance sheets under the following headings and in the following amounts at December 31:

	<u>2011</u>	<u>2010</u>
Capital assets		
Nondepreciable capital assets	\$ 1,574,076	\$ 1,574,076
Depreciable capital assets, net of accumulated depreciation	<u>27,218,362</u>	<u>33,015,195</u>
Total	<u>\$ 28,792,438</u>	<u>\$ 34,589,271</u>

The terms of the Lease specify an initial 30-year term, with two 10-year renewal options. Rental payments to be made by SHS will be \$600,000 per month, with annual escalation of 3% per year on each anniversary date for the first 15 years. The rent is on an absolute net basis, with SHS being responsible for all operating costs associated with the facilities. The Lease calls for certain approvals by the District that affect the operation of the facility for the following: change in license, major service line changes, union contract representation, and maintenance of an independent medical staff. SHS has committed to an initial capital investment of \$90 million over the first 10 years of the Lease, including the installation of the Epic electronic medical record system at the facility. An additional capital investment by SHS is committed each year based on 25% of the defined profitability of the facility. In addition, a potential commitment of a major expansion project of up to \$60 million will be undertaken, provided there is adequate return on investment and demand criteria are met, and the SHS board of trustees approves such a project. The District and SHS will form a strategic collaboration committee to provide oversight for the Lease and strategic planning activities for the facility.

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

In September 1997, the voters of the District approved a maintenance and operations (M&O) tax levy upon the taxable property within the district; the M&O tax provided approximately \$2,032,000 of funding in 2011 and \$1,993,000 of funding in 2010. The levy is ongoing in future years. The M&O tax levy funds are reported in the accompanying statements of revenues, expenses, and changes in net assets as nonoperating revenues.

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

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

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

The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB) and the Audit and Accounting Guide for Health Care Organizations of the American Institute of Certified Public Accountants.

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

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. Key estimates include useful lives of capital assets, third-party cost report settlements, and self-insured liabilities. Changes in estimates resulted in an increase to other nonoperating income of \$750,000 for the year ended December 31, 2011.

Cash and cash equivalents - For purposes of the statements of cash flows, the District considers all highly liquid investments (excluding cash and short-term investments included in restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents totaled \$66,424 and \$65,418 as of December 31, 2011 and 2010, respectively.

Restricted assets - Certain funds are restricted by bond indentures related to the 1995 Revenue Bonds to be used solely for debt service. These funds are invested primarily in obligations of the U.S. government and certificates of deposit with financial institutions. As described further in Note 7, the District receives tax levy funds that are used solely for debt service associated with the general obligation bonds. Taxes and interest receivable and scheduled debt service payments temporarily invested prior to becoming due are recorded as restricted assets. All receipts and earnings generated on such investments are reported as nonoperating revenues and expenses.

Capital assets - Capital assets are stated at cost. Improvements and replacement of capital assets are capitalized. The District's capitalization threshold is \$1,000 per item and a useful life of at least two years. Maintenance and repairs are expensed. The cost of capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Assets under capital leases are amortized over the shorter of the lease term or useful life. Amortization attributable to assets acquired under capital leases is included with depreciation as shown in the statements of revenues, expenses, and changes in net assets.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

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

The following is a summary of asset lives used:

Buildings and building improvements	2 - 50 years
Equipment	2 - 50 years
Land improvements	2 - 25 years

Financing costs - The cost of obtaining debt is deferred and amortized on the straight-line method over the term of the related debt, which approximates the result of using the effective interest method.

Deferred rent - Deferred rent represents lease revenue on a straight-line basis in excess of lease payments received. Lease revenue is recorded evenly throughout the lease term. Differences between the actual lease payments owed during the year and the amount of lease payments recorded evenly throughout the lease term represent deferred rent income.

Self-insurance liabilities - The District accrues an estimate of losses and related expenses for its self-insured workers' compensation claims. The District maintains stop-loss insurance for workers' compensation claims in excess of specified amounts. This estimated liability is recorded in the accompanying balance sheets within accrued salaries and benefits. The amount is approximately \$566,000 and \$1,780,000 as of December 31, 2011 and 2010, respectively. The District also records a liability for estimated professional liabilities (Note 6).

Estimated third-party payor settlements - Under a contractual agreement with Medicare, the Hospital is paid at an interim rate during the year for certain services and programs. The difference between interim payments and estimated final reimbursement for the cost report year results in a settlement receivable or payable, which may be adjusted in future periods as final settlements are determined. The Medicare program's administrative procedures preclude final determination of settlement amounts until after the annual cost reports have been audited or otherwise reviewed and settled by Medicare. The District's cost reports have been audited by the Medicare fiscal intermediary through December 31, 2007. The estimated settlement amounts for the 2008, 2009, and 2010 cost reports are included in the accompanying financial statements.

While operating Stevens Hospital, the District participated in the Medicaid Certified Public Expenditures (CPE) program for inpatient reimbursement, which provides for interim payments for certain services and programs. The difference between interim payments and estimated final reimbursement for the Washington State fiscal year results in a settlement receivable or payable, which may be adjusted in future periods as final settlements are determined.

Statements of revenues, expenses, and changes in net assets - For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of District services are reported as operating revenues and expenses. All levy income, interest expense, investment income, and other peripheral or incidental transactions are reported as nonoperating revenues and expenses. Income from operating Stevens Hospital (Note 8) is deemed nonoperating, as it no longer represents ongoing, major, or central operations of the District.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

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

Income taxes - As a political subdivision of the state of Washington, the District is not subject to federal income tax, as its income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code.

Reclassifications - Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation to more consistently present financial information between years.

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 District 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 District'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.

The District has evaluated subsequent events through April 23, 2012, which is the date the financial statements are available to be issued.

Note 2 - Cash, Cash Equivalents, Investments, and Deposits

The composition of cash, cash equivalents, investments, and deposits at December 31 is as follows:

	2011	2010
Assets whose use is not restricted		
Cash in banks - interest-bearing	\$ 1,527,548	\$ 1,744,208
Short-term Treasury Investment Fund	66,424	65,418
Governmental Mutual Fund	35,054,113	11,382,226
Washington State Investment Pool	-	199,837
	36,648,085	13,391,689
Restricted investments		
Short-term Treasury Investment Fund	157	468
Governmental Mutual Fund	83,176	81,435
Washington State Investment Pool	-	1,430
	83,333	83,333
Total cash, cash equivalents, investments, and deposits	\$ 36,731,418	\$ 13,475,022

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Cash, Cash Equivalents, Investments, and Deposits

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

Because the District is a political subdivision of the state, deposits and investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held in the District's name. Category 2 includes uninsured and unregistered investments that are held by a broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name. At December 31, 2011 and 2010, all deposits and investments of the District are categorized as Category 1.

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

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

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

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

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

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 3 - Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2011 and 2010, were as follows:

	Beginning Balance <u>January 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Account Transfers</u>	Ending Balance <u>December 31, 2011</u>
ASSETS AT COST					
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 3,996,406	\$ -	\$ -	\$ -	\$ 3,996,406
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,285,382	-	-	-	2,285,382
Buildings and building improvements	39,487,921	-	-	-	39,487,921
Equipment	49,078,130	3,982	(638,793)	-	48,443,319
LESS ACCUMULATED DEPRECIATION					
Land improvements	1,730,987	81,986	-	-	1,812,973
Buildings and building improvements	24,306,365	1,508,904	-	-	25,815,269
Equipment	31,798,886	4,195,431	(628,281)	-	35,366,036
DEPRECIABLE CAPITAL ASSETS, net	<u>33,015,195</u>	<u>(5,782,339)</u>	<u>(10,512)</u>	-	<u>27,222,344</u>
CAPITAL ASSETS, net	<u>\$ 37,011,601</u>	<u>\$ (5,782,339)</u>	<u>\$ (10,512)</u>	<u>\$ -</u>	<u>\$ 31,218,750</u>
	Beginning Balance <u>January 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Account Transfers</u>	Ending Balance <u>December 31, 2010</u>
ASSETS AT COST					
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 3,996,406	\$ -	\$ -	\$ -	\$ 3,996,406
Construction in progress	993,184	1,751,749	(14,671)	(2,730,262)	-
Total nondepreciable capital assets	<u>4,989,590</u>	<u>1,751,749</u>	<u>(14,671)</u>	<u>(2,730,262)</u>	<u>3,996,406</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,285,382	-	-	-	2,285,382
Buildings and building improvements	37,965,187	-	-	1,522,734	39,487,921
Equipment	73,500,672	2,902,269	(28,532,339)	1,207,528	49,078,130
LESS ACCUMULATED DEPRECIATION					
Land improvements	1,639,146	91,841	-	-	1,730,987
Buildings and building improvements	22,788,737	1,517,628	-	-	24,306,365
Equipment	54,046,489	4,798,578	(27,046,181)	-	31,798,886
DEPRECIABLE CAPITAL ASSETS, net	<u>35,276,869</u>	<u>(3,505,778)</u>	<u>(1,486,158)</u>	<u>2,730,262</u>	<u>33,015,195</u>
CAPITAL ASSETS, net	<u>\$ 40,266,459</u>	<u>\$ (1,754,029)</u>	<u>\$ (1,500,829)</u>	<u>\$ -</u>	<u>\$ 37,011,601</u>

Note 4 - Deferred Rent

As referenced in Note 1, the District entered into a lease and operating agreement (the Lease) with SHS that was dated and effective September 1, 2010. The terms of the Lease specify an initial 30-year term, with two 10-year renewal options. Rental payments to be made by SHS will be \$600,000 per month, with annual escalation of 3% per year on each anniversary date for the first 15 years. The rental payments will freeze at the rate set during year 15 for the duration of the Lease.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Deferred Rent (continued)

Rental payments to be received under this agreement are as follows:

	<u>Rental Payments</u>
2012	\$ 7,490,160
2013	7,714,865
2014	7,946,311
2015	8,184,700
2016	8,430,241
2017 - 2021	46,100,014
2022 - 2026	53,330,377
2027 - 2031	56,086,827
2032 - 2036	56,086,827
2037 - 2040	41,130,340
	<u>\$ 292,500,662</u>

Note 5 - Long-Term Debt

The balances of the District's long-term debt at December 31 are set forth below:

	<u>2011</u>	<u>2010</u>
LTGO Bonds, 1999, variable interest rate determined weekly by Bank of America, due serially until 2018 in principal payments ranging from \$1,000,000 to \$1,200,000 (interest rate of 0.280% at December 31, 2011).	\$ 8,000,000	\$ 9,000,000
UTGO Bonds, 2003 Refunding Series, paid in full during 2011.	-	1,174,361
Master equipment sales agreement, with interest at 5.48%, due monthly through 2012.	<u>1,005,037</u>	<u>2,284,083</u>
Total long-term debt and obligations under capital leases	9,005,037	12,458,444
Less current portion	<u>(2,005,037)</u>	<u>(3,428,377)</u>
Long-term debt and obligations under capital leases, net of current portion	<u>\$ 7,000,000</u>	<u>\$ 9,030,067</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 5 - Long-Term Debt (continued)

Long-term debt and capital lease obligations' activity summary for 2011 and 2010 is as follows:

	January 1, 2011	Additions	Reductions	December 31, 2011	Amounts Due Within One Year
LONG-TERM DEBT					
1999 LTGO Bond	\$ 9,000,000	\$ -	\$ (1,000,000)	\$ 8,000,000	\$ 1,000,000
2003 UTGO Bond	1,174,361	-	(1,174,361)	-	-
Master equipment sales agreement	<u>2,284,083</u>	-	<u>(1,279,046)</u>	<u>1,005,037</u>	<u>1,005,037</u>
Total long-term debt	<u>12,458,444</u>	-	<u>(3,453,407)</u>	<u>9,005,037</u>	<u>2,005,037</u>
OTHER LONG-TERM LIABILITIES	<u>4,041,974</u>	-	<u>(3,476,325)</u>	<u>565,649</u>	-
	<u>\$ 16,500,418</u>	<u>\$ -</u>	<u>\$ (6,929,732)</u>	<u>\$ 9,570,686</u>	<u>\$ 2,005,037</u>
	January 1, 2010	Additions	Reductions	December 31, 2010	Amounts Due Within One Year
LONG-TERM DEBT					
1999 LTGO Bond	\$ 10,000,000	\$ -	\$ (1,000,000)	\$ 9,000,000	\$ 1,000,000
2003 UTGO Bond	3,178,168	-	(2,003,807)	1,174,361	1,155,000
2005 LTGO Bond	209,196	-	(209,196)	-	-
1995 Revenue Bond	5,600,000	-	(5,600,000)	-	-
Master equipment sales agreement	3,594,900	-	(1,310,817)	2,284,083	1,273,377
Capital lease obligations	<u>449,178</u>	-	<u>(449,178)</u>	-	-
Total long-term debt	<u>23,031,442</u>	-	<u>(10,572,998)</u>	<u>12,458,444</u>	<u>3,428,377</u>
OTHER LONG-TERM LIABILITIES	<u>7,767,873</u>	-	<u>(3,725,899)</u>	<u>4,041,974</u>	-
	<u>\$ 30,799,315</u>	<u>\$ -</u>	<u>\$ (14,298,897)</u>	<u>\$ 16,500,418</u>	<u>\$ 3,428,377</u>

Scheduled principal and interest repayments on long-term debt are as follows as of December 31, 2011:

	Long-Term Debt	
	Principal	Interest
2012	\$ 2,005,037	\$ 49,633
2013	1,100,000	19,343
2014	1,100,000	16,263
2015	1,200,000	13,160
2016	1,200,000	9,800
2017 - 2018	<u>2,400,000</u>	<u>9,520</u>
	<u>\$ 9,005,037</u>	<u>\$ 117,719</u>

The District levies taxes annually upon the taxable property within the District to service bond principal and interest payments on the unlimited tax general obligation (UTGO) bonds. Taxes to finance debt service on these UTGO bonds may be levied without limit on rate or amount.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 5 - Long-Term Debt (continued)

On August 22, 2007, the District's board adopted Resolution No. 2007-07, which authorized an executory conditional sales contract, in the form of a lease, to acquire certain software and related services for District purposes in a principal amount not to exceed \$6,000,000; appointed an escrow agent; and authorized the execution and delivery of an escrow agreement. On September 24, 2008, the District's board adopted Resolution No. 2008-11, which authorized the use of the project funds of the conditional sales contract (lease) for general capital equipment purposes. As of December 31, 2010, the remaining balance for this obligation was \$1,005,037.

In July 1999, the District issued the 1999 Limited Tax General Obligation Improvement and Refunding Variable Rate Demand Bonds (1999 LTGO Bonds) for \$14,100,000. A portion of the proceeds from the bonds was used to refund the remaining balance of the 1994 Series Revenue Bonds, which totaled approximately \$3,300,000, including interest payable. Net proceeds of approximately \$10,600,000 were used to fund the District's projects in 1999 and 2000. The District has designated its M&O tax levy, approved by the voters of the District in September 1997, to the payment of principal and interest on the 1999 LTGO Bonds. In conjunction with its 1999 LTGO Bonds issuance, the District entered into an irrevocable letter of credit with a bank in the amount of the outstanding principal and accrued interest balance of the debt. Scheduled principal and interest payments are drawn by the trustee on the letter of credit facility and automatically reimbursed to the letter of credit facility by the District under the terms of a separate reimbursement obligation agreement with the bank. The letter of credit expires in July 2011, unless otherwise extended or earlier terminated or replaced by the District. The 1999 LTGO Bonds are subject to mandatory redemption following notification of the termination of and failure to replace the letter of credit facility, or in the event of a default, as defined in the agreement. The letter of credit was extended in July 2011 until July 21, 2014.

Note 6 - Professional Liability Insurance

Prior to September 1, 2010, The District maintained a claims-made professional liability insurance policy through a commercial carrier with a self-insured retention per claim. Effective September 1, 2010, the District purchased a tail policy to cover all claims incurred prior to that date. Under this policy, there is a deductible amount of \$100,000 per claim. The policy was purchased to provide maximum coverage for the exposure to the deductible for all claims. At December 31, 2010, the District had estimated a liability for amounts to be paid under the deductible of this policy. This liability is included in the accompanying balance sheets at \$566,000 and \$1,730,000 at December 31, 2011 and 2010.

Note 7 - Property Taxes

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

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Property Taxes (continued)

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

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

For 2011 and 2010, the District's regular tax levy was \$0.10 and \$0.09 per \$1,000 on a total assessed valuation of \$21,166,181,462 and \$23,127,534,712, for a total regular levy of \$2,031,611 and \$1,993,095, respectively. There is a voter-approved tax levy for service of the UTGO bonds. For 2011 and 2010, the tax levy for bond service was \$0.06 and \$0.10 per \$1,000 on the total assessed valuation, for a total additional levy of \$1,109,800 and \$2,199,847, respectively.

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

Note 8 - Income from Operating Hospital

Prior to September 1, 2010, the District operated Stevens Hospital (Note 1). The income from these operations has been classified as nonoperating because it does not represent the ongoing activities of the District. The components of income from operating the Hospital for January 1, 2010, through August 31, 2010, were as follows:

REVENUES

Net patient service revenue (net of provision for bad debts of \$15,092,000)	\$ 109,643,983
Other revenues	<u>6,903,167</u>
Total revenues	<u>116,547,150</u>

EXPENSES

Salaries and wages	52,796,883
Employee benefits	13,839,246
Supplies and other	43,672,724
Depreciation	<u>4,311,496</u>
Total expenses	<u>114,620,349</u>

INCOME FROM OPERATING HOSPITAL	<u><u>\$ 1,926,801</u></u>
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**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba
VERDANT HEALTH COMMISSION
NOTES TO FINANCIAL STATEMENTS**

Note 9 - Retirement Plan

Prior to September 1, 2010, the District sponsored a 401(k) plan that was available to all employees. Employees were eligible to contribute at their hire date. For benefit-eligible hospital employees meeting certain requirements, the District provided a match of 150% to the first 4.5% contributed by the employee. The District's policy was to fund the matching contribution. The retirement matching contribution was approximately \$2,083,000 in 2010. Employee contributions were approximately \$3,270,000 in 2010.

Effective July 1, 2010, the District sponsored a 401(a) plan that is available to all benefit-eligible employees working over 20 hours per week. Employees are eligible to contribute at their hire date. The District contributes 3% of employee wages with an additional matching contribution of up to 3% contributed by the employee. The District's policy is to fully fund the contributions.

Note 10 - Commitments and Contingencies

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

The hospital industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government hospital program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by hospital providers. Violations of these laws and regulations could result in expulsion from government hospital programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District 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.