

**General Community Regional
County Hospital District**

Basic Financial Statements

December 31, 2008 and 2007

**General Community Regional County Hospital District
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**General Community Regional County Hospital District
Management's Discussion and Analysis
December 31, 2008 and 2007**

Our discussion and analysis of General Community Regional County Hospital District (the District's) financial performance provides an overview of the District's financial activities for the years ended December 31, 2008 and 2007. Please read it in conjunction with the District's financial statements, which begin on page 8.

Financial Highlights

- The District's net assets increased by \$100,000 or 1% in 2008 and decreased by \$400,000 or 5% in 2007.
- The District reported an operating loss of \$285,000 in 2008 and an operating loss in 2007 of \$967,000. The operating loss in 2008 decreased by \$682,000 or 71% from the loss reported in 2007. The operating loss in 2007 increased by \$787,000 or 437% from the operating loss reported in 2006.
- Nonoperating net revenues increased by \$52,300 or 17% in 2008 compared to 2007. Nonoperating revenues increased by \$30,700 or 11% in 2007 compared to 2006.

Using This Annual Report

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

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

Our analysis of the District's finances begins on page 2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

The Statement of Cash Flows

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

**General Community Regional County Hospital District
Management's Discussion and Analysis (Continued)
December 31, 2008 and 2007**

The District's Net Assets

The District's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 8. The District's net assets increased by \$100,000 or 1% in 2008 and decreased by \$400,000 or 5% in 2007, as shown in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2008	2007	2006
<i>Assets</i>			
Current assets	\$ 3,769,000	\$ 3,832,000	\$ 4,152,000
Capital assets, net	5,000,000	5,200,000	5,237,000
Other noncurrent assets	4,083,000	3,574,000	3,760,000
Total assets	\$ 12,852,000	\$ 12,606,000	\$ 13,149,000
<i>Liabilities</i>			
Current liabilities	\$ 1,952,000	\$ 1,606,000	\$ 1,874,000
Long-term debt	2,500,000	2,700,000	2,575,000
Total liabilities	4,452,000	4,306,000	4,449,000
<i>Net assets</i>			
Invested in capital assets, net of related debt	2,313,000	2,300,000	2,560,000
Unrestricted	6,087,000	6,000,000	6,140,000
Total net assets	8,400,000	8,300,000	8,700,000
Total liabilities and net assets	\$ 12,852,000	\$ 12,606,000	\$ 13,149,000

Significant components of the change in the District's assets are the increase in noncurrent cash and cash equivalents of \$500,000 and the decrease in the District's capital assets, net of accumulated depreciation, of \$200,000.

Operating Results and Changes in the District's Net Assets

In 2008, the District's net assets increased by \$100,000 or 1%, as shown in Table 2. This increase is made up of several different components.

**General Community Regional County Hospital District
Management's Discussion and Analysis (Continued)
December 31, 2008 and 2007**

Table 2: Operating Results and Changes in Net Assets

	2008	2007
<i>Operating revenues</i>		
Net patient service revenue	\$ 18,000,000	\$ 16,000,000
Other operating revenue	335,000	293,000
Total operating revenue	18,335,000	16,293,000
<i>Operating expenses</i>		
Salaries and benefits	12,500,000	11,500,000
Supplies	2,000,000	1,700,000
Depreciation	700,000	700,000
Other operating expenses	3,420,000	3,360,000
Total operating expenses	18,620,000	17,260,000
Operating loss	(285,000)	(967,000)
<i>Nonoperating revenues (expenses)</i>		
Taxation	463,000	450,000
Interest income	75,000	24,000
Interest and amortization expense	(170,000)	(160,000)
Contributions and other nonoperating revenues and expenses, net	-	1,700
Total nonoperating revenues (expenses), net	368,000	315,700
Excess of revenues (expenses) before capital grants and contributions	83,000	(651,300)
Capital grants and contributions	17,000	251,300
Change in net assets	100,000	(400,000)
Net assets, beginning of year	8,300,000	8,700,000
Net assets, end of year	\$ 8,400,000	\$ 8,300,000

Operating Losses

The first component of the overall change in the District's net assets is its operating loss of \$285,000, generally, the difference between net patient revenues and the expenses incurred to perform those services. The District reported operating losses in both 2008 and 2007. The District's hospital operations began in 1900 as a public hospital district, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the District's lower income residents.

**General Community Regional County Hospital District
Management's Discussion and Analysis (Continued)
December 31, 2008 and 2007**

Operating Losses (continued)

The primary components of these operating results are:

- An increase in net patient revenue of \$2,000,000, or 13%. Net patient revenues increased by \$650,000 or 4%, in 2008.
- Increases in salary and benefit costs for the District's employees of \$1,000,000 or 9%, in 2008 and \$400,000, or 4% in 2007.
- Decreases in professional fees of \$100,000, or 9%, in 2008 and a decrease of \$50,000, or 4%, in 2007.
- The District's level of uncompensated care provided in 2008 was \$400,000 and \$350,000 in 2007. These are services provided for which there is no expectation of payment.

The District is certified as a provider under both the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy families. Approximately 27% of the net patient revenue for the year ended December 31, 2008, was derived from Medicare, and 13% was derived from Medicaid. On the Medicare patient side, until July 31, 2000, the District was paid on a fixed case rate that was adjusted for inflation each year, and the District would lose money on any cases which had expenses exceeding the reimbursement. As of August 1, 2000, the District was designated a critical access hospital by the Centers for Medicare and Medicaid Services. The District initiated a process to qualify for this designation based on certain criteria that has allowed the District, since that date, to receive reimbursement based on actual costs. As for Medicaid, the federal government provides grants to states that have programs meeting certain federal guidelines. These funds are sometimes reduced as the federal or state governments try to balance their budgets.

The rate of healthcare inflation has a direct effect on the cost of services provided by the District. A component of the District's costs is expenses for medical supplies and prescription drugs. In 2008, medical supplies and prescription drug costs totaled approximately \$2,000,000, creating 11% of total operating expenses and an increase from 2007 of 0.9%. In 2007, medical supplies and prescription drug costs totaled approximately \$1,700,000, representing 10% of total operating expenses and an increase of 1% over 2006.

The District sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the District when it was established in 1900. The level of services provided to these patients increased by \$50,000 in 2008 compared to 2007. In 2007, the costs of uncompensated care increased by \$20,000 compared to 2006. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the District.

**General Community Regional County Hospital District
Management's Discussion and Analysis (Continued)
December 31, 2008 and 2007**

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District and interest revenue and investment earnings. Nonoperating tax revenues increased by \$13,000 or 3% compared to the increase in 2007 of \$40,000 or 10%.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the District had approximately \$5,000,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 8 to the financial statements. In 2008, the District purchased new equipment and improvements to facilities costing \$550,000. Of this, there were no additional capital leases. During 2007, \$430,000 was spent to acquire new equipment and improvements to facilities. The District has found, from time to time, it is more economical to lease some of its equipment. This allows the District to avoid some of the costs of obsolescence caused by technological changes.

Debt

At year end, the District had approximately \$2,720,000 in limited tax general obligation bonds, notes payable, and capital lease obligations outstanding, compared with \$2,900,000 in 2007. The District issued no new debt in 2008 or 2007. The District's formal debt issuances — limited tax general obligation bonds — cannot be issued without approval of the District's Board of Commissioners. The amount of debt issued is subject to limitations that apply to hospital districts within the state. There have been no changes in the District's debt ratings in the past two years.

Other Economic Factors

Competition from other hospitals and healthcare providers are a risk to the District's revenue. New or even existing organizations try to carve out profitable segments of the District's business by expanding their operations and/or facilities to meet the demand of growing healthcare in this area.

**General Community Regional County Hospital District
Management's Discussion and Analysis (Continued)
December 31, 2008 and 2007**

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, 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 questions about this report or need additional information, contact the finance department at General Community Regional County Hospital District.

General Community Regional County Hospital District
Balance Sheets
December 31, 2008 and 2007

ASSETS	2008	2007
<i>Current assets</i>		
Cash and cash equivalents	\$ 760,000	\$ 1,000,000
Patient trust fund	14,000	14,000
Receivables:		
Patient accounts, net of estimated uncollectibles of \$250,000 and \$220,000, respectively	2,100,000	2,086,000
Estimated third-party payor settlements	270,000	280,000
Grants	129,000	2,000
Other	46,000	130,000
Inventories	280,000	260,000
Prepaid expenses	170,000	60,000
Total current assets	3,769,000	3,832,000
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	4,000,000	3,500,000
Taxes receivable limited as to use	16,000	12,000
Investments limited as to use	21,000	12,000
Capital assets, net of accumulated depreciation	5,000,000	5,200,000
Bond issuance costs	46,000	50,000
Total noncurrent assets	9,083,000	8,774,000
Total assets	\$ 12,852,000	\$ 12,606,000

See notes to basic financial statements.

**General Community Regional County Hospital District
Balance Sheets (Continued)
December 31, 2008 and 2007**

LIABILITIES	2008	2007
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 220,000	\$ 200,000
Accounts payable	690,000	420,000
Estimated third-party payor settlements	35,000	-
Employee compensation and related liabilities	980,000	960,000
Accrued interest payable	13,000	12,000
Patient trust fund	14,000	14,000
Total current liabilities	1,952,000	1,606,000
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	2,500,000	2,700,000
Total liabilities	4,452,000	4,306,000
<i>Net assets</i>		
Invested in capital assets, net of related debt	2,313,000	2,300,000
Unrestricted net assets	6,087,000	6,000,000
Total net assets	8,400,000	8,300,000
Total liabilities and net assets	\$ 12,852,000	\$ 12,606,000

See notes to basic financial statements.

**General Community Regional County Hospital District
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2008 and 2007**

	2008	2007
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$500,000 and \$300,000, respectively	\$ 18,000,000	\$ 16,000,000
Grants	85,000	63,000
Other	250,000	230,000
Total operating revenues	18,335,000	16,293,000
<i>Operating expenses</i>		
Salaries and wages	9,700,000	9,000,000
Employee benefits	2,800,000	2,500,000
Professional fees	1,000,000	1,100,000
Supplies	2,000,000	1,700,000
Purchased services, utilities	380,000	400,000
Purchased services, other	1,200,000	900,000
Depreciation	700,000	700,000
Rental and leases	260,000	240,000
Insurance	280,000	400,000
Other	300,000	320,000
Total operating expenses	18,620,000	17,260,000
Operating loss	(285,000)	(967,000)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	463,000	450,000
Contributions	-	500
Interest income	75,000	24,000
Interest and amortization expense	(170,000)	(160,000)
Gain on disposal of capital assets	-	1,200
Total nonoperating revenues (expenses), net	368,000	315,700
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	83,000	(651,300)
Capital grants and contributions	17,000	251,300
Change in net assets	100,000	(400,000)
Net assets, beginning of year	8,300,000	8,700,000
Net assets, end of year	\$ 8,400,000	\$ 8,300,000

See notes to basic financial statements.

**General Community Regional County Hospital District
Statements of Cash Flows
Years Ended December 31, 2008 and 2007**

	2008	2007
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 18,031,000	\$ 16,600,000
Grant receipts	(42,000)	74,000
Other receipts	334,000	200,000
Payments to employees	(12,480,000)	(11,953,000)
Payments to suppliers and contractors	(5,279,000)	(5,200,000)
Net cash provided by (used in) operating activities	564,000	(279,000)
<i>Cash flows from noncapital financing activities</i>		
Property taxes for maintenance and operations	459,000	450,000
Contributions	-	580
Grant receipts	-	-
Net cash provided by noncapital financing activities	459,000	450,580
<i>Cash flows from capital and related financing activities</i>		
Grants and contributions received for capital assets	17,000	40,000
Proceeds from issuance of long-term debt	20,000	-
Principal paid on long-term debt	(200,000)	(170,000)
Interest paid on long-term debt	(166,000)	(150,000)
Proceeds from sale of capital assets	-	12,000
Purchase of capital assets	(500,000)	(300,000)
Net cash used in capital and related financing activities	(829,000)	(568,000)
<i>Cash flows from investing activities</i>		
Interest received	75,000	34,000
Purchases of investments	(9,000)	(12,000)
Grant distributions	-	-
Net cash provided by (used in) investing activities	66,000	22,000
Net increase (decrease) in cash and cash equivalents	260,000	(374,420)
Cash and cash equivalents, beginning of year	4,500,000	4,874,420
Cash and cash equivalents, end of year	\$ 4,760,000	\$ 4,500,000

See notes to basic financial statements.

**General Community Regional County Hospital District
Statements of Cash Flows (Continued)
Years Ended December 31, 2008 and 2007**

	2008	2007
<i>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</i>		
Cash and cash equivalents in current assets	\$ 760,000	\$ 1,000,000
Cash and cash equivalents limited as to use in noncurrent assets	4,000,000	3,500,000
Total cash and cash equivalents	\$ 4,760,000	\$ 4,500,000
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (285,000)	\$ (967,000)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation	700,000	700,000
Provision for bad debts	500,000	300,000
Consulting services revenue	53,000	64,000
Consulting services expense	(53,000)	(60,000)
Decrease (increase) in assets:		
Receivables:		
Patient accounts, net	(514,000)	(63,000)
Estimated third-party payor settlements	10,000	(100,000)
Grants	(127,000)	10,000
Other	84,000	(46,000)
Inventories	(20,000)	(34,000)
Prepaid expenses	(110,000)	36,000
Increase (decrease) in liabilities:		
Accounts payable	270,000	(67,000)
Estimated third-party payor settlements	35,000	(103,000)
Patient trust fund	1,000	-
Employee compensation and related liabilities	20,000	51,000
Net cash provided by (used in) operating activities	\$ 564,000	\$ (279,000)

See notes to basic financial statements.

General Community Regional County Hospital District
Notes to Basic Financial Statements
Years Ended December 31, 2008 and 2007

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

General Community Regional County Hospital District (the District) owns and operates General Community Regional County Hospital (the Hospital), a licensed 24-bed critical access hospital and 65-bed nursing home located in Spokane, Washington; a 10-bed assisted-living facility located in Medical Lake, Washington; and rural health clinics located in Cheney, Medical Lake, and Spokane Valley, Washington. The District provides healthcare services to patients in these and the surrounding areas. The services provided include acute care hospital, assisted living, skilled nursing, emergency room, physicians' clinic, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington relating to Washington municipal corporations. As organized, the District is exempt from the payment of federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms. The District is not a component unit of Spokane County.

As required by accounting principles generally accepted in the United States of America, the basic financial statements present the District — the primary government — and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operations or financial relationships with the District.

The General Community Regional Hospital Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized to solicit and accept charitable contributions in order to provide support for the District. The Foundation provided contributions to the District during 2008 and 2007 for various remodels and equipment purchases in the amounts of \$25,000 and \$17,000, respectively.

The Foundation's condensed balance sheets are summarized as follows:

	2008	2007
<i>Assets</i>		
Cash and investments	\$ 650,000	\$ 475,000
<i>Liabilities</i>		
Accounts payable	\$ 20,000	\$ 15,000
<i>Net assets</i>		
Unrestricted	200,000	185,000
Permanently restricted	430,000	275,000
Total net assets	630,000	460,000
Total liabilities and net assets	\$ 650,000	\$ 475,000

General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

a. Reporting Entity (continued)

The Foundation's condensed statements of revenues, expenses, and changes in net assets are summarized as follows:

	2008	2007
<i>Revenues</i>		
Contributions	\$ 149,000	\$ 26,000
Dividends and interest	20,000	22,000
Unrealized gain (loss) on investments	(24,000)	6,000
Special events, net of related expenses	64,000	12,000
Total revenues	209,000	66,000
<i>Expenses</i>		
Program services	26,000	18,000
Management and general	5,400	5,200
Fund raising	7,600	7,400
Total expenses	39,000	30,600
Change in net assets	170,000	35,400
Net assets, beginning of year	460,000	424,600
Net assets, end of year	\$ 630,000	\$ 460,000

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies

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

Enterprise fund accounting – The District’s basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and cash equivalents – All cash receipts are deposited directly with the Spokane County Treasurer who acts as the District Treasurer. Warrants are issued against the cash placed with the County Treasurer and the warrants are redeemed from a commercial bank by the County Treasurer. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

Patient accounts receivable – Receivables arising from patient service revenues are reduced by an allowance for uncollectible accounts and contractual adjustments based on experience, third-party contractual arrangements, and any unusual circumstances which may affect the ability of patients to meet their obligations. Accounts deemed uncollectible are charged against this allowance.

Patient trust fund assets – Such assets are accounts administered by the District for nursing home patients.

Compensated absences – The District’s policy is to permit employees to accumulate paid vacation benefits based on the average number of hours worked per week and the number of years of service. The maximum amount an employee may accrue during a one-year period is 160 hours. No paid vacation benefits are accrued during the first year of employment. All paid vacation benefits are accrued and expensed when earned.

The District permits employees to accumulate paid sick leave benefits based on the average hours worked per week. The maximum amount an employee may accrue during a one-year period is 96 hours. The maximum amount an employee may accumulate is 600 hours. All sick leave benefits are expensed when taken.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Compensated absences (continued) – Employees who have worked continuously for five consecutive years as of December 31, 1992, are eligible to participate in the Hospital Sick Leave Pay-out Program if they continue to be employed for ten years. The maximum number of hours these employees are eligible for at termination are frozen as of December 31, 1992, at their December 31, 1992, rate of pay. The District has recorded a liability for amounts payable under this program as of December 31, 2008 and 2007.

Grants and contributions – From time to time, the District receives grants from the state of Washington and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or purposes related to the District's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Net assets – Net assets of the District are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are assets that must be used for a particular purpose as specified by creditors, donors, or contributors external to the District. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted net assets*. The District did not have any restricted net assets in 2007 or 2006.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services – the District's principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

Inventories – Inventories of medical and other supplies are stated at cost (on the first-in, first-out method) which is considered lower than market price.

Assets limited as to use – Assets limited as to use include assets set aside by the Board of Commissioners for future capital improvements, construction of facilities, furtherance of access to healthcare, and deferred compensation, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Bond issuance costs – Bond issuance costs are legal, accounting, underwriting fees, printing costs, and other expenses associated with the issuance of bonds. These costs have been capitalized and are being amortized to expense over the terms of the bonds.

Patient service revenues – The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with 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.

Charity care – The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The District maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amount of charges foregone for services and supplies furnished under its charity care policy aggregated approximately \$400,000 and \$350,000 in 2008 and 2007, respectively.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Risk transfer pools – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Trust and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. Both trusts are risk transfer pools administered by the Washington State Hospital Association. The District pays its share of actual workers' compensation and unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. Total unemployment insurance expense was approximately \$12,000 and \$14,000 in 2008 and 2007, respectively, and total workers' compensation benefits expense was approximately \$350,000 and \$380,000 in 2008 and 2007, respectively.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

2. Compliance and Accountability:

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. 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. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

3. Bank Deposits and Investments:

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be refunded to it. The District does not have a deposit policy for custodial credit risk.

The District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

The RCW Chapter 39 authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. The District's investment policy specifies that investments will be limited to collateralized certificates of deposit, collateralized repurchase options, passbook savings, money market checking, U.S. Government Treasury securities, or the Washington State Local Government Investment Pool. The District did not have any investments at December 31, 2008 or 2007.

4. Property Taxes:

The Spokane 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 July 1. Assessed values are established by the Spokane County Assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

4. Property Taxes (continued):

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general District purposes. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people. For the year ended December 31, 2008, the District's regular tax levy was \$0.68 per \$1,000 on a total assessed valuation of \$680,882,353 for a total regular levy of \$463,000. For the year ended December 31, 2007, the District's regular tax levy was \$0.70 per \$1,000 on a total assessed valuation of \$642,857,143 for a total regular levy of \$450,000.

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

5. Net Patient Service Revenue:

The District's net patient service revenue is comprised of the following:

	Years Ended December 31,	
	2008	2007
Gross patient service revenue	\$ 22,000,000	\$ 19,500,000
Less charity care	400,000	350,000
	21,600,000	19,150,000
<i>Contractual adjustments</i>		
Medicare	1,300,000	1,100,000
Medicaid	750,000	650,000
Other	1,650,000	1,600,000
Provision for bad debts	500,000	300,000
ProShare	(600,000)	(500,000)
	3,600,000	3,150,000
Net patient service revenue	\$ 18,000,000	\$ 16,000,000

The District has agreements with third-party payors that provide for payment to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Medicaid nursing home services are reimbursed based on costs as defined and limited by the Medicaid program.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

5. Net Patient Service Revenue (continued):

Revenue from the Medicare and Medicaid programs accounted for approximately 27% and 13%, respectively, of the District's net patient revenue for the year ended December 31, 2008, and 29% and 15%, respectively, of the District's net patient revenue for the year ended December 31, 2007. 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. Net patient service revenue increased by approximately \$150,000 and \$90,000 in the years ended December 31, 2008 and 2007, respectively, due to differences between original estimates and final settlements.

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

6. Assets Limited as to Use:

The composition of assets limited as to use at December 31, 2008 and 2007, is set forth in the following table:

	2008	2007
<i>Noncurrent assets</i>		
Internally designated by Board for capital additions and replacements:		
Cash and cash equivalents	\$ 4,000,000	\$ 4,000,000
Taxes receivable	16,000	16,000
Total internally designated for capital additions and replacements	4,016,000	4,016,000
Restricted by 457(f) pension plan, investments	21,000	25,000
Total noncurrent assets	4,037,000	4,041,000
Total assets limited as to use	\$ 4,037,000	\$ 4,041,000

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

7. Patient Accounts Receivable:

Patient accounts receivable reported as current assets by the District at December 31, 2008 and 2007, consisted of these amounts:

	2008	2007
Receivables from patients and their insurance carriers	\$ 1,550,000	\$ 1,556,000
Receivables from Medicare	600,000	500,000
Receivables from Medicaid	200,000	250,000
Total patient accounts receivable	2,350,000	2,306,000
Less allowance for uncollectible amounts	250,000	220,000
Patient accounts receivable, net	\$ 2,100,000	\$ 2,086,000

8. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least three years. Major expenses for capital assets, including leases that increase the useful life, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

All capital assets other than land are depreciated by the straight-line method of depreciation using these asset lives:

Land improvements	20 years
Buildings	20 to 40 years
Equipment, computers, and furniture	3 to 10 years

General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007

8. Capital Assets (continued):

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

	Balance December 31, 2007	Additions	Retirements	Transfers	Balance December 31, 2008
<i>Capital assets not being depreciated</i>					
Land	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Construction in progress	50,000	250,000	-	(150,000)	150,000
Land not used in operations	200,000	-	-	-	200,000
Total capital assets not being depreciated	400,000	250,000	-	(150,000)	500,000
<i>Capital assets being depreciated</i>					
Land improvements	350,000	-	-	50,000	400,000
Buildings	5,000,000	-	-	100,000	5,100,000
Fixed equipment	4,500,000	80,000	-	-	4,580,000
Movable equipment	4,000,000	170,000	-	-	4,170,000
Total capital assets being depreciated	13,850,000	250,000	-	150,000	14,250,000
<i>Less accumulated depreciation for</i>					
Land improvements	(250,000)	(15,000)	-	-	(265,000)
Buildings	(3,500,000)	(180,000)	-	-	(3,680,000)
Fixed equipment	(2,900,000)	(250,000)	-	-	(3,150,000)
Movable equipment	(2,400,000)	(255,000)	-	-	(2,655,000)
Total accumulated depreciation	(9,050,000)	(700,000)	-	-	(9,750,000)
Total capital assets being depreciated, net	4,800,000	(450,000)	-	150,000	4,500,000
Capital assets, net	\$ 5,200,000	\$ (200,000)	\$ -	\$ -	\$ 5,000,000

General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007

8. Capital Assets (continued):

Capital asset additions, retirements, and balances for the year ended December 31, 2007, were as follows:

	Balance December 31, 2006	Additions	Retirements	Transfers	Balance December 31, 2007
<i>Capital assets not being depreciated</i>					
Land	\$ 100,000	\$ 50,000	\$ -	\$ -	\$ 150,000
Construction in progress	-	50,000	-	-	50,000
Land not used in operations	200,000	-	-	-	200,000
Total capital assets not being depreciated	300,000	100,000	-	-	400,000
<i>Capital assets being depreciated</i>					
Land improvements	350,000	-	-	-	350,000
Buildings	5,000,000	-	-	-	5,000,000
Fixed equipment	4,350,000	150,000	-	-	4,500,000
Movable equipment	3,820,000	180,000	-	-	4,000,000
Total capital assets being depreciated	13,520,000	330,000	-	-	13,850,000
<i>Less accumulated depreciation for</i>					
Land improvements	(235,000)	(15,000)	-	-	(250,000)
Buildings	(3,320,000)	(180,000)	-	-	(3,500,000)
Fixed equipment	(2,670,000)	(230,000)	-	-	(2,900,000)
Movable equipment	(2,125,000)	(275,000)	-	-	(2,400,000)
Total accumulated depreciation	(8,350,000)	(700,000)	-	-	(9,050,000)
Total capital assets being depreciated, net	5,170,000	(370,000)	-	-	4,800,000
Capital assets, net	\$ 5,470,000	\$ (270,000)	\$ -	\$ -	\$ 5,200,000

Construction in progress at December 31, 2008, primarily consists of an electronic medical records system. This system has an estimated cost to complete of \$85,000 and is expected to be placed into service in December 2009.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

9. Long-term Debt and Other Noncurrent Liabilities:

A schedule of changes in the District's noncurrent liabilities for the years ended December 31, 2008 and 2007, follows:

	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008	Amounts Due Within One Year
<i>Long-term debt</i>					
Limited tax general obligation and refunding bonds, 1999	\$ 2,600,000	\$ -	\$ (130,000)	\$ 2,470,000	\$ 140,000
Limited tax general obligation bonds, 2002	250,000	-	(50,000)	200,000	55,000
Note payable	50,000	20,000	(20,000)	50,000	25,000
Total long-term debt	2,900,000	20,000	(200,000)	2,720,000	220,000
Total noncurrent liabilities	\$ 2,900,000	\$ 20,000	\$ (200,000)	\$ 2,720,000	\$ 220,000

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007	Amounts Due Within One Year
<i>Long-term debt</i>					
Limited tax general obligation and refunding bonds, 1999	\$ 2,710,000	\$ -	\$ (110,000)	\$ 2,600,000	\$ 130,000
Limited tax general obligation bonds, 2002	295,000	-	(45,000)	250,000	50,000
Note payable	65,000	-	(15,000)	50,000	20,000
Total long-term debt	3,070,000	-	(170,000)	2,900,000	200,000
Total noncurrent liabilities	\$ 3,070,000	\$ -	\$ (170,000)	\$ 2,900,000	\$ 200,000

Limited Tax General Obligation Bonds – The District issued limited tax general obligation bonds dated September 1, 1995. The bonds financed the construction of an assisted-living facility in Medical Lake, Washington. The District issued limited tax general obligation and refunding bonds dated June 1, 1999, in the original amount of \$4,200,000 to refund the remaining portion of the District's outstanding 1995 bonds and to issue new debt to finance a major renovation of the Hospital. The bonds are due in varying installments from \$130,000 to \$295,000, plus interest varying from 5.2% to 5.8%, maturing in 2018.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

9. Long-term Debt and Other Noncurrent Liabilities (continued):

The District issued limited tax general obligation bonds dated December 4, 2002, in the original amount of \$400,000 to finance the modernization of the District's healthcare facilities. The bonds are due in varying installments from \$35,000 to \$48,000, plus interest at 4.85%, maturing in 2017.

The limited tax general obligation and refunding bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District.

The District's note payable to Inland Imaging, LLC, dated December 15, 2002, was paid off in 2008.

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

Years Ending December 31,	Long-term Debt		
	Principal	Interest	Total
2009	\$ 195,000	\$ 138,000	\$ 333,000
2010	209,000	129,000	338,000
2011	217,000	119,000	336,000
2012	224,000	108,000	332,000
2013	235,000	97,000	332,000
2014 - 2018	1,365,000	294,000	1,659,000
2019	275,000	15,000	290,000
	\$ 2,720,000	\$ 900,000	\$ 3,620,000

10. Defined Contribution Plan:

The District provides pension benefits for employees upon completion of one year of employment and who have attained the age of 21 through the General Community Regional County Hospital District Profit Sharing Plan (the Plan), a defined contribution plan. Employees who are classified as "supplemental" employees are not eligible to participate in the Plan. The Plan is administered by the District. In a defined contribution plan, benefits depend solely on amounts contributed by the District to the plan plus investment earnings. Employees are eligible to participate after one year of service if they agree to contribute 3% of their compensation to the General Community Regional County Hospital District Deferred Compensation Section 457(b) Plan. The District contributes 3% of the employee's salary and contributions are made on an annual basis. The District's contributions are vested at 50% after two years of service with graduated increases until vesting reaches 100% after three years of service. District contributions and interest forfeited by employees who leave employment before three years of service are used to pay plan expenses and to reduce the District's current period contribution requirement. The District made the required contributions of approximately \$160,000 and \$150,000 for 2008 and 2007, respectively. Employees contributed approximately \$420,000 and \$390,000 for 2008 and 2007, respectively.

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

11. Deferred Compensation Plan:

The District provides the General Community Regional County Hospital District Deferred Compensation Section 457(f) Plan, a deferred compensation plan, to key employees, under Section 457 of the Internal Revenue Code. Key employees are those specifically designated by the District, qualify as a member of the “select group of management or highly compensated employees” for purposes of the Employee Retirement Income Security Act of 1974, and enter into a salary reduction agreement. This plan is administered by the District. The deferred compensation plan is funded solely from employee contributions, which are deposited into a trust fund. Contributions to the plan were \$14,000 during both 2008 and 2007. The District has recorded the contributions and related investment earnings as assets limited as to use.

12. Medical Malpractice:

The District purchases malpractice liability insurance through The Insurance Corporation (TIC). TIC provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy. If there are unreported incidents which result in a malpractice claim for the current year, these will only be covered in the year the claim is reported to the insurance carrier if the District purchases claims-made insurance in that year or if the District purchases extended coverage (tail) insurance to cover claims incurred before but reported after cancellation or expiration of a claims-made policy. TIC’s present liability limit is \$1,000,000 per claim with an annual aggregate limit of \$3,000,000. The District also purchases excess malpractice liability insurance through IC. TIC provides protection on an “excess” basis whereby claims reported to the insurance carrier are only covered in excess of primary malpractice liability coverage. TIC’s present liability limit is \$5,000,000 per claim with an annual aggregate limit of \$5,000,000. The deductible on the policy is \$25,000. No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

13. Concentration of Credit Risk:

Receivables – The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Spokane County.

The mix of receivables from patients at December 31, 2008 and 2007, is as follows:

	2008	2007
Medicare	27 %	29 %
Medicaid	13	15
Other third-party payors	38	36
Self-pay	22	20
	100 %	100 %

**General Community Regional County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2008 and 2007**

13. Concentration of Credit Risk (continued):

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or changes in their utilization patterns may have an adverse effect on hospital services.

14. Commitments Under Noncancelable Operating Leases:

The District is committed under various noncancelable operating leases, all of which are for buildings and equipment. These expire in various years through 2010. Future minimum operating lease payments are as follows:

Years Ending December 31,		
2009	\$	116,000
2010		98,000
	\$	214,000

Rental and lease expense was \$260,000 and \$240,000 for the years ended December 31, 2008 and 2007, respectively.

15. Related-Party Transactions:

The District leases medical office space under an operating lease dated October 1, 2006, for a period of four years, with Money Investments, LLC (MI). A portion of MI is owned by two physicians who are employees of the District. Lease expense paid to MI for the years ended December 31, 2008 and 2007 was \$128,000 and \$144,000, respectively.