Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

El Camino Healthcare District

June 30, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

MANAGEMENT’S DISCUSSION AND ANALYSIS

During fiscal year 2013 El Camino Hospital District changed its name to become more transparent in the public eye, to El Camino Healthcare District (the "District"), to make a sharper distinction between the taxpayer-funded District and the operations of El Camino Hospital (the "Hospital") and its subsidiaries.

The District is comprised of six (6) entities: the District, the Hospital, El Camino Hospital Foundation (the "Foundation"), CONCERN: Employee Assistance Program ("CONCERN"), El Camino Surgery Center ("ECSC"), and Silicon Valley Medical Development, LLC ("SVMD").

Effective May 2013, the Surgery Center, operated by ECSC, was sold to a third party, the El Camino Ambulatory Surgery Center ("ECASC"). ECSC contributed certain medical equipment, furnishings, fixtures, inventories, and other tangible personal property in exchange for a seven and one half (7.5%) interest in ECASC. ECSC has also provided a working capital line of credit in a principal amount of $750,000 represented by a Promissory Note with a term of 39 months.

The Hospital acquired the real estate and certain other assets of the 143-bed Community Hospital of Los Gatos ("Los Gatos") in April 2009, closed it for 90 days, and re-opened it on July 12, 2009. The Los Gatos "sister hospital campus" operates under the tax identification number, state healthcare license number, and the various provider numbers of the Hospital.

Overview of the Consolidated Financial Statements

This annual report consists of the consolidated financial statements and notes to those statements. These statements are organized to present the District as a whole, including all the entities it controls. Financial information for each separate entity is shown in the supplemental schedules on the last pages of the report. In accordance with the Governmental Accounting Standards Board ("GASB") Codification Section 2200, *Comprehensive Annual Financial Report,* the District presents comparative financial highlights for the fiscal years ended June 30, 2013, 2012, and 2011. This discussion and analysis should be read in conjunction with the consolidated financial statements in this report.

The consolidated statements of net position, the consolidated statements of revenues, expenses, and changes in net position, and consolidated statements of cash flows provide an indication of the District's financial health. The consolidated statements of net position include all the District's assets and liabilities, using the accrual basis of accounting. The consolidated statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The consolidated statements of cash flows report the cash provided by the operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements.

Consolidated Financial Highlights

Year Ended June 30, 2013

- The increase in net position for 2013 was $102.6 million over fiscal year 2012. Net operating income contributed $64.8 million. Non-operating added another $37.9 million, primarily driven by realized investment income and an unrealized gain this year on an interest rate swap.

- Total assets increased by $92.6 million over fiscal year 2012, which was mostly in the increase of total surplus cash and investments.

Year Ended June 30, 2012

- The increase in net position for 2012 was $72.1 million over fiscal year 2011. Net operating income contributed $59.7 million. Non-operating income contributed another $12.4 million, primarily driven by net investment income, including realized and unrealized gains on investments.

- The increase in operating income between fiscal years 2011 and 2012 was $14.1 million. This was primarily due to growth in patient volumes at the Los Gatos campus and growth at both campuses in procedural volumes. Continued staff efficiencies and a reduction in operating costs due to the one-time significant consulting project – Accelerated Continuous Excellence ("ACE") - started at the end of fiscal year 2010.

- Total assets increased by $79.8 million over fiscal year 2011. Total surplus cash and investments increased by $91.8 million over fiscal year 2011, primarily driven by significant net income, and continued reduction in capital expenditures.

- Current liabilities decreased by $41.6 million in the current fiscal year over 2011. Primarily, this was due to the outstanding $50 million 2009 Series Revenue Bond that, during the current fiscal year, had its Letter of Credit extended to April 2017, causing the debt to again be classified as a long-term liability.

Summary of Assets, Liabilities and Net Position
As of June 30, 2013, 2012 and 2011

(In Thousands)

	2013	2012	2011
Assets:			
Current assets	$ 379,513	$ 379,838	$ 306,128
Board designated and restricted funds, net of current portion	343,632	236,763	212,669
Funds held by trustee, net of current portion	14,866	13,495	13,090
Capital assets, net	647,036	670,711	691,178
Other assets	63,573	55,230	53,196
Total assets	**$ 1,448,620**	**$ 1,356,037**	**$ 1,276,261**
Liabilities:			
Current liabilities	$ 97,619	$ 100,252	$ 141,821
Bonds payable, net of current portion	321,986	326,578	280,728
Other long-term liabilities	48,955	51,768	48,361
Total liabilities	**$ 468,560**	**$ 478,598**	**$ 470,910**
Net position:			
Unrestricted and invested in capital assets, net	$ 972,978	$ 870,562	$ 795,539
Restricted by donors - charity and other	5,297	4,820	5,250
Restricted - endowments	1,785	2,057	4,562
Total net position	**$ 980,060**	**$ 877,439**	**$ 805,351**
Total liabilities and net position	**$ 1,448,620**	**$ 1,356,037**	**$ 1,276,261**
Operating cash equivalents & short-term investments	$ 256,841	$ 263,762	$ 196,034
Board designated & restricted funds	355,035	240,795	218,812
Total available cash & investments	**$ 611,876**	**$ 504,557**	**$ 414,846**

Investments

The consolidated District maintains sufficient cash balances to pay daily operational expenses and all short term liabilities. In late fiscal year 2012, the Hospital (exclusive of the District) went through a RFP process to select an Investment Consultant to assist the Hospital and its subsidiaries in managing it Surplus Cash (and Cash Balance Plan) assets. At the end of 2012 the Investment Consultant was retained and both the investment policies for Surplus Cash and Cash Balance Plan were updated and approved by the Hospital Board of Directors. The policies allow for greater diversification in the investment portfolios balance the need for liquidity with a long-term investment focus in order to improve investment returns and the organization's financial strength. Beginning early in fiscal year 2013, an Investment Subcommittee of the Finance Committee was formed to perform the following responsibilities, among others: monitor performance of investment managers, monitor allocations across investment styles and investment managers, review compliance with the policies, and make recommendations for revisions to the policies. Throughout fiscal year 2013, the number of money managers expanded from two money managers for Surplus Cash to appropriately seventeen managers. Also, in an effort to reduce costs, the Custodian Bank was consolidated to Wells Fargo Bank, which had been the custodian for the Cash Balance Plan.

Capital Assets

In fiscal year 2013, the Los Gatos campus had three major construction projects approved, including $6.7 million to perform seismic upgrades, $7 million for infrastructure, such as replacement of boilers/chillers, HVAC controls, conference room upgrades, finishes, fixtures and furnishings upgrades in the CCU, Mother-Baby unit, and Medical/Surgical units; and $3.1 million for phase 2 of an Imaging Equipment replacement.

At the Mountain View campus, a $19 million project was approved to build out a 16,000 square foot area of the new hospital that will allow for the relocation of the Data Center, the Morgue and Autopsy functions and the Clean and Soiled Linen functions that currently exist in the old main hospital. Still in progress is the $4.5 million Women's Hospital Labor and Delivery expansion and upgrade. At fiscal yearend, the initial design and development costs for a renovation of the Behavioral Health building were written off, as a total replacement building project was brought forward for an authorized $3 million for design and scope costs in June 2013.

During 2013, an infant security system was installed at the Mountain View campus. A number of sophisticated information technology software systems were added in fiscal 2013: a Knowledge Enterprise System, a business intelligence system to be used by the newly formed Performance Improvement department; a project that utilizes a technology called Virtual Desktop Infrastructure or VDI which takes applications and user data and centralizes the users' desktops in the data center where it can be easily managed, modified, and refreshed; all through software; and a system that integrates medical systems and information systems in to the clinical and electronic medical record system to increase timeliness of data entry, accuracy and efficiency to assist with the new IDC-9 requirements set forth by the Federal Government.

Revenues and Expenses

The following table displays revenues and expenses for 2013, 2012, and 2011:

Revenues & Expenses
Years Ended June 30, 2013, 2012 and 2011

(In Thousands)

	2013	2012	2011
Operating revenues:			
Net patient service revenue	$ 691,545	$ 636,820	$ 603,625
Other revenue	21,565	21,591	19,015
Total operating revenues	**$ 713,110**	**$ 658,411**	**$ 622,640**
Operating expenses:			
Salaries, wages & benefits	$ 373,480	$ 330,472	$ 307,707
Professional fees and purchased services	90,649	93,324	101,386
Supplies	103,603	94,196	88,761
Depreciation and amortization	48,357	49,593	49,942
Rent and utilities	13,937	13,925	13,029
Interest	7,757	7,374	7,374
Other	10,571	9,870	8,903
Total operating expenses	**$ 648,354**	**$ 598,754**	**$ 577,102**
Operating income	**$ 64,756**	**$ 59,657**	**$ 45,538**
Nonoperating revenue (expense) items:			
General Obligation bond interest expense	(4,787)	(4,828)	(4,897)
Intergovernmental transfer expense	-	(3,349)	-
Investment income, net	26,943	18,346	23,544
Property tax revenues	18,264	16,420	15,793
Restricted gifts, grants and other	4,432	3,432	8,003
Unrealized gain (loss) on interest rate swap	4,061	(5,781)	1,364
Other, net	(11,048)	(11,423)	(5,686)
Minority interest in subsidiary earnings	-	(386)	(386)
Total nonoperating revenues and expenses	**$ 37,865**	**$ 12,431**	**$ 37,735**
Increase in net position	**$ 102,621**	**$ 72,088**	**$ 83,273**
Total net position, beginning of year	**$ 877,439**	**$ 805,351**	**$ 722,078**
Total net position, end of year	**$ 980,060**	**$ 877,439**	**$ 805,351**

Fiscal Year 2013 Consolidated Financial Analysis

Net Patient Services Revenues

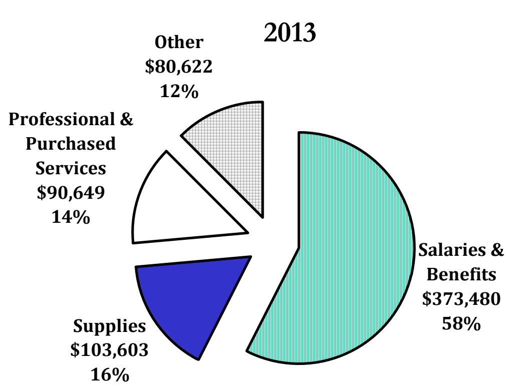
Net patient services revenue in fiscal year 2013 increased by $54.7 million or 8.6% over fiscal year 2012. This increase was due to changes in payor reimbursement arrangements, increases in surgical volumes, and increased patient activity in Maternity and Intensive Care Nursery at both campuses. Also during fiscal year 2013, the Hospital experienced an increase in cost report settlements.

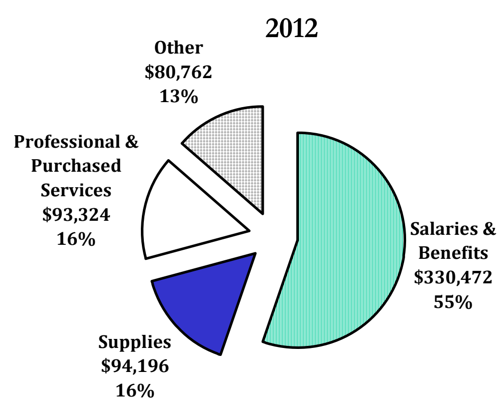
Specialty	2013 Days	2012 Days	% Change
Medical/Surgical	57,274	55,992	2.3%
Maternity	13,600	11,632	16.9%
Pediatrics	72	334	-78.4%
NICU	5,936	4,946	20.0%
Psychiatry	7,789	7,429	4.8%
Normal newborn	11,850	10,469	13.2%
Total	**96,521**	**90,802**	**6.3%**

Specialty	2013 LOS	2012 LOS	% Change
Medical/Surgical	4.6	4.6	0.0%
Maternity	2.6	2.6	0.0%
Pediatrics	1.7	3.5	-51.4%
NICU	10.3	9.8	5.1%
Psychiatry	9.2	8.3	10.8%
Normal newborn	2.4	2.4	0.0%
Total	**4.0**	**4.0**	**0.0%**

The overall case mix index, which is an indicator of patient acuity, was 1.43 in fiscal year 2013, compared to 1.44 in fiscal year 2012.

Operating Expenses





Los Gatos

As discussed in prior year MD&A's, the Los Gatos campus of El Camino Hospital occurred in fiscal year 2010, with the July 2009 opening of the newly acquired hospital in the Los Gatos/Campbell area. For the fiscal year 2013 it had an operating income of $13.8 million, which included a charge for overhead from the Mountain View campus of $10.5 million.

Salaries and Wages

It is to be noted that the District as a stand-alone entity has no employees. All employees are at the Hospital and its related corporations.

Total salaries and wages (including employee benefits) increased by $43 million in fiscal year 2013 over 2012, which is 57.6% of total operating expenses compared to 55.2% in fiscal year 2012. Salaries and wages (exclusive of employee benefits) increased by $25.4 million over fiscal year 2012. RN payroll salaries increased by $15.2 million in fiscal year 2013 compared to 2012. Approximately $5.5M of this increase was due to the average wage increase of 6.8% granted PRN (Professional Resource of Nurses – the RN's bargaining unit) implemented in April and June 2012 that carried forward for the entire fiscal year 2013. On March 31, 2013, PRN was granted another 2% increase, and will receive 2% increases every six months over the next 18 months. With a RN turnover rate of 6.2%, the Hospital is below the Northern California rate holding at 8.8%, as published by the California Hospital Association ("CHA"). In 2013, the Hospital added 126 FTE's ("Full Time Equivalents"), of which 96 FTE's were in nursing and clinical departments.

Effective beginning the fourth quarter of fiscal year 2013, the employees of the Hospital's previously outsourced IT and Health Information Management services departments became employees of the Hospital, which caused a salaries and benefits expense of $2.9 million over the prior fiscal year.

Employees represented by SEIU United Healthcare Workers ("SEIU – UHW") negotiated a new contract with the Hospital, after reaching an impasse in labor negotiations, the Hospital Board approved implementation of the "Last, Best and Final Offer" to the SEIU-UHW on October 11, 2011. The new contract was ratified and approved by the Hospital Board on October 10, 2012 and extends through June 2015. Employees of SEIU-UHW received a 3% increase at the July 2012 contract start date.

The Hospital's Stationary Engineers – Local 39 per their current contract were provided a 4% increase effective November 11, 2012.

Hospital-represented, non-management staff were granted a 3% salary and wage increase effective July 5, 2012. Within the management staff, certain managers received market-based salary adjustments effective August 5, 2012.

Senior executive staff received market-based adjustments effective August 5, 2012 that averaged 2.7% in the aggregate.

Employee Benefits

Aggregate employee benefits, including accrued Paid Time Off ("PTO") and Extended Sick Leave increased by $17.6 million.

Significant increases were as follows:

- Healthcare expense increased by $5.2 million this fiscal year over 2012. This was attributable to the Hospital reverting back to covering 100% of the premium for the healthcare and dental coverage that became effective January 2013. Employees had previously contributed 10% of these costs. Also adding to the increase were the overall monthly premium increases and the increase in the number of covered employees.

- Accrued Paid Time Off increased by $3.9 million driven by salary and wage increases, flat dollar differentials being paid for RN's on evening and night shifts and while on extended sick leave, and the overall FTE increase. Effective January 2013 the maximum accrual "bank" was increased from 350 hours to 400 hours for PRN, SEIU-UHW, and hospital represented staff.

- Workers Compensation costs increased by $3.5 million primarily due to the need to increase actuarial reserves and that the on-going claim payments grew over the prior year.

- Employer Social Security and Medicare taxes increased by $1.7 million in fiscal year 2013 driven by the increase in the Social Security wage threshold, salary and wage increases, and additional FTE's.

- 403B Employer Match expense increased this year over prior year by $1.2 million due to increased participation and the return to an enhancement match of 5% and 6% for employees with longevity of 15 years and 20 years respectively.

Professional and Purchased Services

Total professional fees and purchased services decreased by $2.7 million over the prior fiscal year.

Effective beginning the fourth quarter of fiscal year 2013, the employees of our previously outsourced IT and Health Information Management Services became employees of the Hospital, which caused a decrease of $4.3 million in purchased services during the last quarter of fiscal 2013. Offsetting most of this $4.3 million were increases for physician medical and directorship fees, management fees for the Inpatient Rehab at Los Gatos due to increased activity, maintenance services for the facilities, and outside agency services for managers in the critical care, sterile processing and dialysis departments.

Supplies

Total supplies increased by $9.4 million in fiscal year 2013 over 2012. Significant areas of increase were in the surgeries at both campuses, especially the Orthopedic Spine program at Los Gatos, interventional radiology procedures, pharmaceutical supplies, and facility building maintenance supplies. Continued increases for minor equipment (primarily medical) due to changes made to the threshold for capitalization of equipment from the previous $1,000 to $2,500 at the end of fiscal year 2012.

Depreciation and Amortization

Depreciation expense this fiscal year decreased over the prior year by $1.2 million, primarily attributable due to medical equipment in the Surgery and Imaging departments and certain major software becoming fully depreciated during the current fiscal year.

Rent and Utilities

The .1% increase experienced in the current fiscal year is immaterial.

Interest Expense

Interest expense is primarily a result of the 2007 and 2009 bond debt, with minor amounts on the current capitalized equipment that are entering their final year.

Other Expense

The increase of $0.7 million over the prior fiscal year was principally in the areas of community sponsorships and forgiveness on loans granted certain recruited physicians that are needed within the communities of the Hospital and remained in their practices.

Change in Net Unrealized Gains and Losses on Investments

For fiscal year 2013, the Hospital had seventeen money managers with different investment objectives for the Hospital's surplus cash investments. Total net unrealized gains/losses are reported in the consolidated financial statements during this fiscal year.

The change in net unrealized gains and losses for fiscal year 2013 was a Year over Year (YOY) positive change of $0.1 million. The net unrealized gain in 2013 was a result of strong equity market returns as the S&P 500 Index was up 20.6% for the twelve months ended June 30, 2013. The combination of equities and mutual funds unrealized gains was the main driver of the increase. Mutual fund investments are primarily comprised of equity securities.

Fixed income securities experienced a net unrealized loss of $0.9 million in 2013, whereas, equities contributed $0.3 million in net unrealized gains in 2012. The Barclays Capital Aggregate Index returned 7.5% for the twelve months ended June 30, 2012.

Economic Factors and Next Year's Budget

The Board approved the fiscal year 2014 budget at their June 2013 meeting. The District is budgeting net income of $83.2 million in fiscal year 2014. Volumes are expected to increase by 1% due to expansion of the Orthopedic & Spine service lines, as well as a new neuro-interventional program. Increases in reimbursement are budgeted to be below the rate of expense inflation. Additionally, the organization continues to improve patient satisfaction levels and quality and expects to incur increased costs as it invests in strategic initiatives continuum of care initiatives.

Fiscal Year 2012 Consolidated Financial Analysis

Net Patient Services Revenues

Net patient services revenue in fiscal year 2012 increased by $33.2 million or 5.5% over fiscal year 2011. This increase was due to changes in payor reimbursement arrangements, increases in surgical volume and emergency department visits at the Mountain View campus, increases in admissions at the Los Gatos campus, and Intergovernmental Transfer ("IGT") payments from the state Medi-Cal program for uncompensated care.

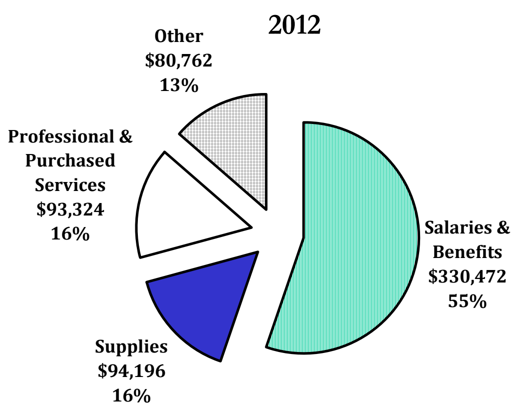
Inpatient Business Activity

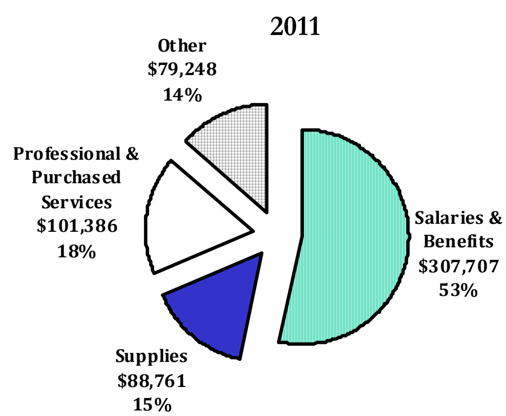
Specialty	2012 Days	2011 Days	% Change
Medical/Surgical	55,992	57,125	-2.0%
Maternity	11,632	12,118	-4.0%
Pediatrics	334	204	63.7%
NICU	4,946	4,936	0.2%
Psychiatry	7,429	7,375	0.7%
Normal newborn	10,469	10,990	-4.7%
Total	**90,802**	**92,748**	**-2.1%**

Specialty	2012 LOS	2011 LOS	% Change
Medical/Surgical	4.6	4.5	2.2%
Maternity	2.6	2.6	0.0%
Pediatrics	3.5	2.0	75.0%
NICU	9.8	9.9	-1.0%
Psychiatry	8.3	7.6	9.2%
Normal newborn	2.4	2.4	0.0%
Total	**4.0**	**4.1**	**-2.4%**

The overall case mix index, which is an indicator of patient acuity, was 1.44 in fiscal year 2012, compared to 1.17 in fiscal year 2011.

Operating Expenses





Los Gatos

As discussed in the fiscal year 2011 Management Discussion and Analysis, there was the addition of the Los Gatos campus of El Camino Hospital, which opened in July 2009. For fiscal year 2012, the Los Gatos campus generated an operating income of $17.3 million over the fiscal year 2011 operating income of $12.3 million for a $5.0 million increase. The Los Gatos campus is charged costs of overhead from the Mountain View campus in the amount of $8.5 million and $9.0 million in the respective years.

Salaries and Wages

It is to be noted that the District as a stand-alone entity has no employees. All employees are at the Hospital and its related corporations.

Total salaries and wages (including employee benefits) increased by $22.8 million in fiscal year 2012 over 2011, which is 55.2% of total operating expenses compared to 53.3% in fiscal year 2011. Salaries and wages (exclusive of employee benefits) increased by $9.6 million over fiscal year 2011. Effective the end of April and the beginning of June 2012, the bargaining unit for nurses (PRN – Professional Resources of Nurses) received salary increases and market adjustments for certain clinical positions that increased the average wage rate by 6.8%. This increase restored competitive wages allowing the District to hire experienced RN's. With a RN turnover rate of 7.3%, the District is below the Northern California turnover rate of 8.8% as published by the California Hospital Association ("CHA"). In 2012, the District added approximately 60 FTE's ("Full Time Equivalents"), mostly in the patient services areas.

Employees represented by SEIU United Healthcare Workers had their 4-year contract expire in July 2011. Contract negotiations continued throughout the summer into early fall with no agreement being reached. Thus, in October 2011, the Hospital implemented its Last, Best, Final offer approved by the Board, which granted no wage increase in the fiscal year, with the exception of 123 employees in 13 job classifications receiving increases of 4-16% effective in December 2011 for market adjustments. An additional 22 employees received increases of 1.6-5% with implementation of a career ladder for Respiratory Therapy employees in April 2012. Other changes in implementing the Hospital's Last, Best, Final offer was a change to healthcare benefits, which has employees contribute 10% of the healthcare premiums for the basic coverage that was previously covered at 100% by the Hospital.

The Hospital's Stationary Engineers – Local 39 per their current contract were provided a 4% increases effective November 13, 2011.

Hospital-represented, non-management staff were granted a 3% salary and wage increase effective June 23, 2012. Management staff had sixteen (16) managers that received market-based salary adjustments effective August 7, 2011.

Senior executive staff received market-based adjustments effective August 7, 2011, that averaged 3.4% in the aggregate.

Employee Benefits

Aggregate employee benefits, including accrued Paid Time Off ("PTO") increased by $13.3 million in fiscal year 2012 over 2011.

Significant increases were as follows:

- Pension retirement (Cash Balance Plan) expense increased this year over prior year by $4.5 million, due to second year in a row of lowering the discount rate (from 8% in fiscal year 2010 to 7% in fiscal year 2011) to 6% for the current fiscal year. Management also reduced the amortization period of the NPO (Net Pension Obligation) to seven (7) years from ten (10) years in the 2011 fiscal year, which was down from thirty (30) years in fiscal year 2010.

- Workers compensation actuarial reserves stabilized to a normal expensing amount in fiscal year 2012, after a couple of years of credits to expense in the overall needed reserves that occurred in fiscal years 2011 and 2010. Thus, given the swing between these two (2) fiscal years, this actuarial amount increased $4.1 million in 2012 over 2011.

- In recognition of the Hospital's strong financial performance in fiscal year 2012, as well as improvements in patient satisfaction and quality care the Board approved an overall "Employee Recognition Award" to nearly all employees. This expected cost, along with the anticipated increase for incentive pay provided senior management, directors, and managers given their individual performance evaluations and goals, contributed to an approximate $2.3 million increase over fiscal year 2011.

- Accrued PTO expense increased by $1.8 million over fiscal year 2011. While some of this increase would be attributable to wage and salary increases during 2012, a significant portion was due to returning to an accrual method based on an employee's status, and not straight productive hours worked, that excluded PTO being taken for PRN and the Hospital represented employee base, that was in effect the last six months of fiscal year 2011.

Professional and Purchased Services

Total professional fees and services decreased by $8 million in fiscal year 2012 over 2011. The significant item that caused the decrease in the amount of $17 million was that in the prior fiscal year 2011 there were payments made to a consulting firm that had assisted the Hospital in implementing its Accelerated Continuous Excellence ("ACE") initiative that started in fiscal year 2010 and continued into 2011 with final payments made to the consulting firm in the fiscal year. This initiative made significant and measurable operational improvements in the revenue cycle and cost reductions. The Hospital subsequently incorporated these multiple improvements into its operations to lead to significant income from operations in fiscal years 2011 and again in 2012.

Significant increases to professional and purchased services occurred in the following areas:

- An increase of $2.3 million occurred in repair and maintenance to the facilities at both the Mountain View and Los Gatos campuses. At the Mountain View campus, these included the Behavioral Health Services in the old tower, window treatments, and added wall protection in the New Main Hospital where significant wear and tear had already occurred. Additionally, there were maintenance projects, such as parking resurfacing and building joint sealant upgrades, which are done every four to five years. At the Los Gatos campus, the Hospital had to address several elements of deferred maintenance of the buildings causing additional upgrades and major repairs to occur.

- An increase of $2.3 million over fiscal year 2011 was in the areas strategic planning development for the recently Board-approved Hospital Strategic Plan for the next three to five years, legal expense for general corporate issues and for union contract negotiations, and recruitment consulting for top executive positions during the year.

- An increase of $1 million over fiscal year 2012 occurred at the Los Gatos campus for the outside purchased services to operate its inpatient physical rehabilitation services that were fully operational in the current fiscal year.

Supplies

Total supplies increased by $5.4 million in fiscal year 2012 over 2011. Two (2) major areas of the increase were:

- The threshold for capitalization of equipment was changed from the previous $1,000 to $2,500 at the end of the year. Thus, management expensed previously capitalized equipment that had a cost of less than $2,500 and still had a remaining book value, which caused a one-time expense of approximately $2.4 million.

- Significant growth in the Ortho-Spine program at the Los Gatos campus caused a $2.1 million increase in surgery supplies for the program.

Depreciation and Amortization

The expense for depreciation and amortization decreased by $0.3 million, principally attributable to assets becoming fully depreciated during the current fiscal year.

Interest

Interest expense that is primarily for the 2007 and 2009 bond debt for the Replacement Hospital at the Mountain View campus was essentially unchanged.

Rent and Utilities

The increase in fiscal year 2012 over 2011 was $0.9 million, primarily driven by the opening of the Senior Health Center, providing convenient outpatient services for seniors, at a location near the Mountain View campus, and increases in electric costs at both campuses.

Other Expenses

This expense increased by $0.9 million in fiscal year 2012 over the prior 2011. Property insurance expense increased in the current year due to increases in rates and property values. Employee relocation expense increased in the current fiscal year as a few vacant senior management positions were filled. The District increased its participation in community sponsorships of local events.

Change in Net Unrealized Gains and Losses on Investments

For fiscal year 2012, the Hospital had two money managers with different investment objectives for the Hospital's surplus cash investments. Total net unrealized gains/losses in stocks and bonds are reported in the District's consolidated financial statements during this fiscal year.

Barrow, Hanley, Mewhinney & Strauss (BHMS)

Stock investments change to net unrealized gains during fiscal 2012 resulted in a Year over Year (YOY) negative change of $1.4 million. Significant gains were realized from sales during the fiscal year resulting in a lower amount of unrealized gains at the end of the fiscal year despite the S&P 500 being up 3.2% on a price basis for the twelve months ended June 30, 2012.

Intermediate bond investments change to net unrealized gains during fiscal 2012 resulted in a YOY positive change of $1.9 million. Rates declined moving prices and therefore unrealized gains were higher. For example, the rate on the Treasury five year note was 1.76% at June 30, 2011, compared to 0.72% at June 30, 2012.

Short maturity bond investments change to net unrealized losses during fiscal 2012 resulted in a YOY negative change of $0.7 million. The bond investment change primarily represents bonds purchased at premiums that must decline to par value as they approach maturity.

Wells Capital Management ("WCM")

Bond investments managed by WCM reflected an increase in the amount of unrealized gains during the period. The change from the prior year was a net gain of $4.4 million. The bond investment change represents a 5.8% increase in market value. During the period, there were no contributions or withdrawals made to the portfolio. Intermediate U.S. Treasury yields declined significantly during the period falling 100 to 165 basis points across the curve. This decline in rates drove bond prices higher and resulted in the portfolio having an increase in unrealized capital gains.

As of the end of the fiscal year, the cost of the Hospital's investments in the WCM Fund were $78.8 million, including reinvestment of income, with the market value of $89.3 million, which represents an unrealized gain of 13.3% of the market value.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
El Camino Healthcare District

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of El Camino Healthcare District, (the "District") which comprise the consolidated statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of El Camino Healthcare District as of June 30, 2013 and 2012, and the consolidated changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 1 through 13, and the accompanying supplemental pension and postretirement benefit information on page 44, are not required parts of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers them to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational economic, or historical context. This supplementary information is the responsibility of El Camino Healthcare District's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the El Camino Healthcare District's consolidated financial statements. The accompanying consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position, on pages 41 to 43, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of El Camino Healthcare District's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the El Camino Healthcare District's consolidated financial statements. The accompanying supplemental schedule of community benefit on page 45 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of El Camino Healthcare District's management. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

San Francisco, California
October 30, 2013

CONSOLIDATED FINANCIAL STATEMENTS

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2013 and 2012
(In Thousands)

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 51,259	$ 42,334
Short-term investments	205,582	221,428
Current portion of board designated, restricted funds and trusteed assets	14,136	9,653
Patient accounts receivable, net of allowances for doubtful accounts of $9,313 and $9,473 in 2013 and 2012, respectively	88,362	87,528
Prepaid expenses and other current assets	20,101	18,787
Notes receivable, current	73	108
Total current assets	379,513	379,838
Non-current cash and investments		
Board-designated funds	343,574	236,707
Restricted funds	58	56
Funds held by trustee	14,866	13,495
	358,498	250,258
Capital assets, net	647,036	670,711
Pledges receivable, net	1,651	2,747
Prepaid pension asset	32,868	27,527
Investments in health care affiliates	22,999	18,660
Other assets	6,055	6,296
Total assets	$ 1,448,620	$ 1,356,037
LIABILITIES AND NET POSITION		
Current liabilities		
Current portion capital lease obligations	$ 4,961	$ 5,100
Accounts payable and accrued expenses	17,403	19,442
Salaries, wages, and related liabilities	38,439	39,484
Other current liabilities	11,107	13,609
Estimated third-party payor settlements	21,117	18,467
Current portion of bonds payable	4,592	4,150
Total current liabilities	97,619	100,252
Capital lease obligations, net of current portion	-	4,952
Bonds payable, net of current portion	321,986	326,578
Other long-term obligations	10,005	13,953
Workers' compensation, net of current portion	23,409	18,031
Postretirement medical benefits, net of current portion	15,541	14,832
Total liabilities	468,560	478,598
Net position		
Invested in capital assets, net of related debt	335,114	343,694
Restricted - expendable	5,297	4,820
Restricted - nonexpendable	1,785	2,057
Unrestricted	637,864	526,868
Total net position	980,060	877,439
Total liabilities and net position	$ 1,448,620	$ 1,356,037

See accompanying notes.

(In Thousands)

	2013	2012
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $14,623 and $14,747 in 2013 and 2012, respectively)	$ 691,545	$ 636,820
Other revenue	21,565	21,591
Total operating revenues	713,110	658,411
OPERATING EXPENSES		
Salaries, wages, and benefits	373,480	330,472
Professional fees and purchased services	90,649	93,324
Supplies	103,603	94,196
Depreciation and amortization	48,357	49,593
Rent and utilities	13,937	13,925
Other	18,328	17,244
Total operating expenses	648,354	598,754
Income from operations	64,756	59,657
NONOPERATING REVENUES (EXPENSES)		
Investment income, net	26,943	18,346
Property tax revenue		
Designated to support community benefit programs and operating expenses	6,514	5,902
Designated to support capital expenditures	4,483	3,610
Levied for debt service	7,267	6,908
General Obligation bond interest expense	(4,787)	(4,828)
Intergovernmental transfer expense	-	(3,349)
Restricted gifts, grants and bequests, and other	4,432	3,432
Unrealized gain (loss) on interest rate swaps	4,061	(5,781)
Other, net	(11,048)	(11,809)
Total nonoperating revenues (expenses)	37,865	12,431
Increase in net position	102,621	72,088
TOTAL NET POSITION, beginning of year	877,439	805,351
TOTAL NET POSITION, end of year	$ 980,060	$ 877,439

See accompanying notes.

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 693,361	$ 635,449
Other cash receipts	21,565	21,591
Cash payments to employees	(368,438)	(328,100)
Cash payments to suppliers	(241,698)	(220,872)
Net cash from operating activities	104,790	108,068
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	10,997	9,512
Restricted contributions and investment income	5,528	4,441
Transfers from restricted funds and other	(2)	(2)
Net cash from noncapital financing activities	16,523	13,951
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property, plant, and equipment	(24,682)	(29,126)
Payments on capital leases obligations	(5,091)	(5,801)
Payments on bonds payable	(4,150)	(4,610)
Interest paid on General Obligation bond debt	(4,787)	(4,828)
Tax revenue related to general obligation bonds	7,267	6,908
Net cash used for capital and related financing activities	(31,443)	(37,457)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,339,447)	(458,743)
Sales of investments	1,243,943	366,490
Investment income	15,895	6,537
Decrease in notes receivable	35	1,905
Change in funds held by trustee, net	(1,371)	(405)
Net cash used for investing activities	(80,945)	(84,216)
Net increase in cash and cash equivalents	8,925	346
CASH AND CASH EQUIVALENTS at beginning of year	42,334	41,988
CASH AND CASH EQUIVALENTS at end of year	$ 51,259	$ 42,334
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	$ 64,756	$ 59,657
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	48,357	49,593
Provision for bad debts	14,623	14,747
Changes in assets and liabilities		
Patient accounts receivable, net	(12,807)	(16,118)
Prepaid expenses and other current assets	(10,753)	(4,138)
Current liabilities, excluding current portion capital lease obligations	(5,586)	1,463
Other long-term obligations	5,491	2,567
Postretirement medical benefits	709	297
Net cash from operating activities	$ 104,790	$ 108,068

See accompanying notes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – During fiscal year 2013 El Camino Hospital District changed its name to El Camino Healthcare District (the "District"), to make a sharper distinction between the taxpayer-funded District and the operations of El Camino Hospital (the "Hospital") and its related corporations.

The District includes the following component units which are included as blended component units of the District's consolidated financial statements: the Hospital, El Camino Hospital Foundation (the "Foundation"), CONCERN: Employee Assistance Program ("CONCERN"), El Camino Surgery Center, LLC ("ECSC"), and Silicon Valley Medical Development, LLC ("SVMD").

The District is organized as a political subdivision of the State of California and was created for the purpose of operating an acute care hospital and providing management services to certain related corporations. The District is the sole member of the Hospital, and the Hospital is the sole corporate member of the Foundation and CONCERN. As sole member, the District (with respect to the Hospital) and the Hospital (with respect to the Foundation and CONCERN) have certain powers, such as the appointment and removal of the boards of directors and approval of changes to the articles of incorporation and bylaws. As of June 30, 2012, the Hospital owned 99.9% of ECSC and a physician owned the remaining 0.1%. In May 2013, the Hospital purchased the remaining 0.1% from the physician. As of June 30, 2013, the Hospital owns 100% of ECSC.

The purpose of CONCERN is to provide and operate a specialized healthcare service plan for various business organizations nationwide; CONCERN has a limited Knox-Keene license from the Department of Corporations of the State of California.

SVMD was formed in September 2008 as a Limited Liability Corporation ("LLC"), a wholly owned subsidiary of the Hospital focused on the expansion of the clinical enterprise outside of the Hospital through various business ventures and physician alignment initiatives that improve access for the Hospital's current patients and new, underserved members of the community, extend healthcare into people's homes through the applications of electronic connectivity and assist independent physicians in clinical integration with the Hospital, among other initiatives.

All significant inter-entity accounts and transactions have been eliminated in the consolidated financial statements.

Accounting standards – Pursuant to Government Accounting Standard Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and consolidated financial statements are prepared using the economic resources measurement focus.

Use of estimates – The preparation of the consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include deposits with financial institutions, and investments in highly liquid debt instruments with an original maturity of three months or less. In addition, in 2013 and 2012, cash and cash equivalents include repurchase agreements, which consist of highly liquid obligations of U.S. governmental agencies. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

Investments – Investments consist primarily of highly liquid debt instruments and other short-term interest-bearing certificates of deposit, U.S. Treasury bills, U.S. government obligations, hedge funds, hedge fund of funds, and corporate debt, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Board-designated and restricted funds include assets set aside by the board for future capital improvements and other operational reserves, over which the board retains control and may at its discretion use for other purposes; assets set aside for qualified capital outlay projects in compliance with state law; and assets restricted by donors or grantors.

Investment income, realized gains and losses, and unrealized gains and losses on investments are reflected as nonoperating revenue or expense.

Deferred financing costs – Financing costs incurred with the issuance of bonds are amortized over the term of the bonds using a method that approximates the effective interest rate method, included in prepaid expenses and other current assets. Amortization of these costs is included in interest expense.

Bond assets held in trust – According to the terms of both indenture agreements (General Obligation and Revenue Bonds), these amounts are held by the bond trustee and paying agent and are maintained and managed by the trustee and are invested in short-term cash equivalents. These assets are available for the settlement of future current bond obligations.

Capital assets – Capital asset acquisitions are recorded at cost. Donated property is recorded at its fair market value on the date of donation. All purchases over $2,500 are capitalized. Equipment under capital lease is amortized on the straight-line basis over the shorter of the lease term or the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	16 years
Buildings and fixtures	25 – 47 years
Equipment	3 – 16 years

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

Costs of borrowing – Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Investments in health care related affiliates – The Hospital holds an interest in Pathways Home Health & Hospice and Pathways Private Duty (formerly Pathways Continuous Care), which are reported on the equity method of accounting.

Risk management – The Hospital 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; 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.

Self-insurance plans – The Hospital maintains professional liability insurance on a claims-made basis, with liability limits of $30,000,000 in aggregate, and which is subject to a $50,000 deductible. Additionally, the Hospital is self-insured for workers' compensation benefits. The Hospital purchases a Workers' Compensation Excess Policy that insures claims greater than $1,000,000 with a limit of $10,000,000 and a $1,000,000 deductible. Actuarial estimates of uninsured losses for professional liability and workers' compensation have been accrued as liabilities in the accompanying consolidated financial statements.

The following is a summary of changes in workers' compensation liabilities for the years ended June 30 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
2013	$ 20,331	$ 9,198	$ 3,820	$ 25,709

	Beginning Balance	Increases	Decreases	Ending Balance
2012	$ 17,872	$ 5,343	$ 2,884	$ 20,331

Interest rate swap agreements – During the fiscal year ended June 30, 2007, the Hospital entered into derivative instruments in the form of three swap agreements to hedge variable interest rate exposure. During the fiscal year ended June 30, 2008, the underlying variable rate debt was refunded for fixed rate debt, leaving the Hospital with speculative derivative instruments that largely offset the variable rate debt issued in 2009. Two of these swaps were terminated in the fiscal year ended June 30, 2010. Refer to Note 9 for a full description of the interest rate swap agreements.

Net position – Net position of the District are classified as invested in capital assets, restricted–expendable, restricted-nonexpendable, and unrestricted net position.

Invested in capital assets, net of related debt – Invested in capital assets of $335,114,000 and $343,694,000 at June 30, 2013 and 2012, respectively, represent investments in all capital assets (building and building improvements, furniture and fixtures, and information and technology equipment), net of depreciation less any debt issued to finance those capital assets.

Restricted - expendable – The restricted expendable net position is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation and includes assets in self-insurance trust funds, revenue bond reserve fund assets, and net position restricted to use by donors.

Restricted - nonexpendable - The restricted non-expendable net position is equal to the principal portion of permanent endowments.

Unrestricted net position – Unrestricted net position consists of net position that does not meet the definition of invested in capital assets, net of related debt, or restricted.

Statements of revenues, expenses, and changes in net position – For purposes of display, transactions deemed by management to be ongoing, major, or central to the provisions of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses. These peripheral activities include investment income, property tax revenue, gifts, grants and bequests, change in net unrealized gains and losses on investments in marketable securities, unrealized losses on interest rate swaps and are reported as nonoperating. Investments in the Pathways Home Health & Hospice and Pathways Private Duty are accounted for under the equity method. The Hospital's share of the operating income of these entities is included as other, net in the consolidated financial statements.

Net patient service revenue and patient accounts receivable – Net patient service revenue is reported at 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. At June 30, 2013 and 2012, the Hospital provided allowances for losses on amounts receivable directly from patients totaling $13,204,000 and $12,542,000, respectively. The distribution of net patient accounts receivable by payor at June 30, 2013 and 2012, is as follows:

	June 30,	
	2013	**2012**
Medicare	21%	19%
Medi-Cal	3%	4%
Commercial and other	74%	76%
Self pay	2%	1%
	100%	100%

Uncollectible accounts – The Hospital provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible.

Charity care – The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of estimated costs for services and supplies furnished under the Hospital's charity care policy aggregated approximately $2,417,000 and $3,154,000 in 2013 and 2012, respectively.

Property tax revenue – The District received approximately 18% in 2013 and 23% in 2012 of its total increase in net position from property taxes. These funds were designated as follows:

	June 30,	
	2013	**2012**
Designated to support community benefit programs	$ 6,514,000	$ 5,902,000
Designated to support Hospital Replacement Project	$ 4,483,000	$ 3,610,000
Levied for debt service	$ 7,267,000	$ 6,908,000

Property taxes are levied by the County on the District's behalf on January 1 and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Property taxes are considered delinquent on the day following each payment due date. Property taxes are recorded as nonoperating revenue by the District when they are earned.

Grants and contributions – From time to time, the District receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Income taxes – The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. CONCERN has also been granted tax-exempt status. However, income from the unrelated business activities of the Hospital and the Foundation is subject to income taxes. ECSC and SVMD are limited liability companies and are treated as pass-through entities for federal income tax purposes. Accordingly, no recognition has been given to federal income taxes in the accompanying consolidated financial statements.

Reclassifications – Certain amounts in the 2012 notes to the consolidated financial statements have been reclassified to conform to the 2013 presentation.

New accounting pronouncements – The GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* ("GASB No. 61"), which is effective for financial statements for periods beginning after June 15, 2012. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. It also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The District has adopted this statement for the fiscal year ended June 30, 2013, and it did not have a significant effect on the consolidated financial statements.

The GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63"), which is effective for financial statements for periods beginning after December 15, 2011. The requirements of GASB No. 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components – net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted. The District has adopted this statement for the fiscal year ended June 30, 2013, and it did not have a significant effect on the consolidated financial statements.

The GASB also issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65"), which is effective for financial statements for periods beginning after December 15, 2012. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The District is currently evaluating the impact of the adoption of GASB No. 65 for the fiscal year ending June 30, 2014.

The GASB also issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* ("GASB No. 68"), which is effective for financial statements for periods beginning after June 15, 2014. GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. The District is currently evaluating the impact of the adoption of GASB No. 68 for the fiscal year ending June 30, 2015.

The GASB also issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"), which is effective for financial statements for periods beginning after December 15, 2013. GASB No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. It also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. It defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations, and provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The District is currently evaluating the impact of the adoption of GASB No. 69 for the fiscal year ending June 30, 2015.

NOTE 2 – OPERATING REVENUES

The following table reflects the percentage of net patient revenues by major payor group for the years ended June 30:

	2013	**2012**
Medicare	25%	24%
Commercial and other	73%	74%
Medi-cal	2%	2%
	100%	100%

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedules, prepaid payments per member, and per diem payments or a combination of these methods. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors.

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient services are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per procedure. The District is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The effect of updating prior year estimates for Medicare and other liabilities was to increase 2013 and 2012 net operating income by $2,650,000 and $7,992,000, respectively. The Hospital's cost reports have been audited by the Medicare fiscal intermediary through June 30, 2007.

Medi-Cal and contracted rate payors are paid on a percentage of charges, per diem, per discharge, fee schedule, or a combination of these methods.

Laws and regulations governing the Medicare and Medi-Cal programs are complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Included in other revenue are amounts from investments in health-related activities, rental income, cafeteria, and other nonpatient care revenue.

NOTE 3 – CASH DEPOSITS

At June 30, 2013 and 2012, District cash deposits had carrying amounts of $51,259,000 and $42,334,000, respectively, and bank balances of $55,780,000 and $47,116,000, respectively. All of these funds were held in cash deposits, which are collateralized with the California Government Code ("CGC"), except for $250,000 per account that is federally insured by the Federal Deposit Insurance Corporation ("FDIC").

The District participates in a cash management program provided by its primary depository institution that allows cash in District concentration accounts to be swept daily and invested overnight in reverse repurchase agreements that are not exposed to custodial credit risk because the underlying securities are held by the buyer-lender. At June 30, 2013 and 2012, balances in repurchase agreements had bank balances of $54,474,000 and $44,958,000, respectively, and are included in the carrying amounts above.

NOTE 4 – BOARD-DESIGNATED, RESTRICTED FUNDS AND INVESTMENTS

Board-designated funds, restricted funds, and short-term investments, collectively, as of June 30, 2013 and 2012, comprised the following (in thousands):

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
2013				
Cash and cash equivalents	$ 19,008	$ -	$ -	$ 19,008
Mutual funds	174,400	9,368	-	183,768
Equities	31,373	8,113	(1,430)	38,056
Fixed income securities	320,706	4,469	(5,390)	319,785
	$ 545,487	$ 21,950	$ (6,820)	$ 560,617
2012				
Cash and cash equivalents	$ 9,534	$ -	$ -	$ 9,534
Mutual funds	325	-	-	325
Equities	54,118	7,420	(7,066)	54,472
Fixed income securities	383,536	15,854	(1,173)	398,217
	$ 447,513	$ 23,274	$ (8,239)	$ 462,548

At June 30, 2013, investment balances and average maturities were as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	$ 19,008	$ 19,008	$ -	$ -	$ -
Mutual funds	183,768	183,768	-	-	-
Government and agencies	89,036	19,045	64,881	4,239	871
Corporate bonds	120,584	7,091	82,296	20,959	10,238
Domestic fixed income	100,351	-	17,074	9,914	73,363
Foreign fixed income	9,814	-	5,789	2,686	1,339
	522,561	$ 228,912	$ 170,040	$ 37,798	$ 85,811
Equities	38,056				
Total fair value	$ 560,617				

At June 30, 2012, investment balances and average maturities were as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	$ 9,534	$ 9,534	$ -	$ -	$ -
Mutual funds	325	325	-	-	-
Government and agencies	109,871	3,382	82,964	23,525	-
Corporate bonds	189,229	13,526	160,696	15,007	-
Domestic fixed income	89,511	-	89,511	-	-
Foreign fixed income	9,606	-	5,332	4,274	-
	408,076	$ 26,767	$ 338,503	$ 42,806	$ -
Equities	54,472				
Total fair value	$ 462,548				

Interest rate risk – Through its investment policies, the District manages its exposure to fair value losses arising from increasing interest rates by limiting duration of fixed income securities in its portfolio to no more than 30% of designated benchmark.

Credit risk – District investment policies require fixed income investments to have a minimum of 85% of a money manager's assets in investment grade assets. The investment policy requires investment managers maintain an average of A- or higher ratings as issued by a nationally recognized rating organization. Additionally, the investment policy requires no more than 5% of a money manager's portfolio at the time of purchase shall be invested in the securities of any one issuer, with the exception of a United States government agency, agency MBS or other Sovereign issues rated AAA or Aaa.

Foreign currency risk – The District's investment policy permits it to invest up to 30% of total investment in foreign currency denominated investments.

Alternative investments risk – The District's alternative investments include ownership interest in a wide variety of partnership and fund structures that may be domestic or offshore. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity and other strategies. Investments in this category may employ leverage to enhance the investment return. The District's holdings can include financial assets such as marketable securities, non-marketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other funds and partnerships. Generally these investments do not have a ready market. Interest in these investments may not be traded without approval of the general partner or fund management.

Alternative investments are subject to all of the risks described previously relating to equities and fixed income instruments. In addition, alternative strategies and their underlying assets and rights are subject to a broad array of economic and market vagaries that can limit or erode value. The underlying assets may not be held by a custodian either because they cannot be, or because the entity has chosen not to hold them in this form. Valuation determined by the investment manager, who has a conflict of interest in that he or she is compensated for performance are considered and reviewed by the District's Investment Committee and the Board of Directors. Real assets may be subject to physical damage from a variety of means, loss from natural causes, theft of assets, lawsuits involving rights and other loss and damage including mortgage foreclosure risk. These risks may not be insured or insurable. Tangible assets are subject to loss from theft and other criminal actions and from naturals. Intangible assets are subject to legal challenge and other possible impairment.

The carrying amount of deposits and investments are included in the District's consolidated statements of net position as follows (in thousands):

	2013	2012
Included in the following consolidated statement of net position captions:		
Short-term investments	$ 205,582	$ 221,428
Current portion board designated, restricted funds and trusteed assets	11,403	4,032
Board designated, less current portion	343,574	237,032
Restricted funds, less current portion	58	56
	$ 560,617	$ 462,548

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, is as follows (in thousands):

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated				
Land	$ 39,627	$ -	$ -	$ 39,627
Construction in progress	6,074	9,261	4,109	11,226
	45,701	9,261	4,109	50,853
Capital assets being depreciated				
Land improvement	11,283	-	-	11,283
Buildings	710,601	3,304	367	713,538
Property under capital leases	26,122	-	-	26,122
Capital equipment	235,066	21,378	17,855	238,589
	983,072	24,682	18,222	989,532
Less accumulated depreciation for				
Land improvement	4,908	786	-	5,694
Buildings	180,346	19,962	-	200,308
Property under capital leases	16,398	6,161	-	22,559
Capital equipment	156,410	21,448	13,070	164,788
	358,062	48,357	13,070	393,349
Total capital assets being depreciated, net	625,010	(23,675)	5,152	596,183
Total capital assets, net	$ 670,711	$ (14,414)	$ 9,261	$ 647,036

Capital assets activity for the year ended June 30, 2012, is as follows (in thousands):

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated				
Land	$ 33,937	$ 5,690	$ -	$ 39,627
Construction in progress	4,520	8,690	7,136	6,074
	38,457	14,380	7,136	45,701
Capital assets being depreciated				
Land improvement	11,277	6	-	11,283
Buildings	703,329	7,575	303	710,601
Property under capital leases	26,122	-	-	26,122
Capital equipment	227,218	20,688	12,840	235,066
	967,946	28,269	13,143	983,072
Less accumulated depreciation for				
Land improvement	4,116	795	3	4,908
Buildings	160,486	19,860	-	180,346
Property under capital leases	10,237	6,161	-	16,398
Capital equipment	140,386	22,839	6,815	156,410
	315,225	49,655	6,818	358,062
Total capital assets being depreciated, net	652,721	(21,386)	6,325	625,010
Total capital assets, net	$ 691,178	$ (7,006)	$ 13,461	$ 670,711

Construction contracts of approximately $58,487,000 exist for the construction of various projects including upgrading the Los Gatos campus, Los Gatos seismic upgrades, and the Women's Hospital at the Mountain View campus. At June 30, 2013, the remaining commitment on these contracts approximated $42,175,000.

NOTE 6 – EMPLOYEE BENEFIT PLANS

The Hospital sponsors a cash-balance pension plan (the "Plan"), which has been in effect since January 1, 1995. The Plan covers employees who are 21 years of age and have completed one year of credited service. Participants are entitled to a lump-sum distribution or monthly benefits at age 65 based on a predetermined formula that considers years of service and compensation. Effective July 1, 1999, employer Plan benefits are calculated as 5% of a participant's annual plan compensation, and the annual interest is an indexed rate based on the return on ten-year U.S. treasury securities. Participants are fully vested in their account balances after five pension years.

Certain retired and terminated employees and certain participants covered by a collective bargaining agreement continue to participate under provisions of a defined-benefit retirement plan in effect prior to January 1, 1995. Any costs and liabilities related to this plan are included below.

The following table summarizes the net pension obligation ("NPO") or prepaid pension asset for the Hospital's cash-balance pension plan (in thousands):

Fiscal Year	Beginning of Year NPO/(Prepaid Pension Asset) (a)	Annual Pension Cost (b)	Actual Contribution (c)	Increase (Decrease) in NPO (b-c)	End of Year NPO/ (Prepaid Pension Asset) ((a)+c-b))
2011	$ (27,310)	$ 7,871	$ 4,800	$ 3,071	$ (24,239)
2012	$ (24,239)	$ 12,367	$ 15,654	$ (3,287)	$ (27,526)
2013	$ (27,526)	$ 12,665	$ 18,005	$ (5,340)	$ (32,866)

The following table summarizes the actuarial assumptions used to determine the Hospital's cash-balance pension plan liabilities as of June 30:

	2013	2012	2011
Expected long-term return on assets	6.0%	6.0%	7.0%
Rate of compensation increases	4.0%	4.0%	4.0%
Date of actuarial valuation	January 2012	January 2011	January 2010
Amortization period of NPO	7 years	7 years	10 years

Components of pension activity for the years ended June 30, 2013 and 2012, consist of the following (in thousands):

	2013	2012
Pension expense	$ 12,665	$ 8,114
Employer contributions	$ 18,005	$ 15,654
Benefits paid	$ 8,024	$ 7,118

Eligible employees of the Hospital may also elect to participate in a separate deferred compensation plan (the 403(b) plan) pursuant to Section 403(b) of the Code. The Hospital acts as the administrator and sponsor, and the 403(b) plan's assets are held by trustees designated by the Hospital's management. Employees are eligible to participate upon employment, and participants are immediately vested in their elective contributions plus actual earnings thereon. The Hospital will match employee contributions to the 403(b) plan, subject to a maximum of 4% of each participant's annual plan compensation. Participants are eligible for employer match in the second plan year in which they work at least 1,000 hours, and they must be on the payroll at the end of the plan year (December 31). Employer matching contributions under the 403(b) plan are made to the cash–balance pension plan and earn interest as defined by that plan. Employer matching contributions to the 403(b) plan of $6,797,000 and $6,531,000 in 2013 and 2012, respectively, are included in benefits expense. Participants are immediately vested in the employer contributions included in the cash–balance pension plan.

NOTE 7 – POSTRETIREMENT MEDICAL BENEFITS

The Hospital provides healthcare benefits and life insurance for retired employees who meet eligibility requirements as outlined in the plan document, as approved by the board of directors of the Hospital. All employees who attain age 55 with a minimum of 20 years of enrollment in the Hospital's healthcare program and are enrolled in one of the plans upon retirement, and who were hired prior to July 1, 1994 are eligible. Under the plan, employees are credited with employment history accumulated under a prior Hospital plan.

Benefits are funded by the Hospital on a pay-as-you go basis. If a participant terminates from the Hospital after 20 years of enrollment but before reaching age 62, he or she can choose to contribute to the plan between ages 55 and 61 to retain the plan's benefits. At age 62, eligible retirees are given an annual credit based on years of service to pay for health benefits. As of June 30, 2013 and 2012, approximately 655 employees and former employees were eligible to participate in the plan. For the fiscal years ended June 30, 2013 and 2012, the Hospital contributed $468,000 and $727,000, respectively, to fund benefits paid in those years.

The Hospital's annual postretirement benefit cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with parameters of GASB Codification Section P50, *Postemployment Benefits Other Than Pension Benefits - Employer Reporting*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Hospital's annual postretirement benefit cost, the amount actually contributed to the plan, and the changes in the Hospital's postretirement benefit obligation (in thousands):

	2013	2012
Annual required contribution	$ 896	$ 890
Interest on postretirement benefit obligation	630	619
Adjustment to annual required contribution	(349)	(485)
Annual postretirement benefit expense	1,177	1,024
Employer contributions	(468)	(727)
Increase in accumulated benefit obligation	$ 709	$ 297
Postretirement benefit obligation, beginning of the year	$ 14,832	$ 14,535
Postretirement benefit obligation, end of the year	$ 15,541	$ 14,832

The Hospital's annual postretirement benefit cost, the percentage of annual postretirement benefit cost contributed to the plan, and the postretirement benefit obligation for 2013 and the two preceding years were as follows (in thousands):

	Annual Postretirement Benefit Expense	Annual Postretirement Benefit Expense Contributed	Postretirement Benefit Obligation
Fiscal Year Ended			
June 30, 2011	$ 1,112	69.60%	$ 14,535
June 30, 2012	$ 1,024	71.00%	$ 14,832
June 30, 2013	$ 1,177	39.76%	$ 15,541

As of July 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $21,400,000, resulting in an unfunded actuarial accrued liability (UAAL) of $21,400,000. The covered payroll (annual payroll of active employees covered by the plan) was $42,931,000, and the ratio of the UAAL to the covered payroll was -49.8%.

For measurement purposes, annual rates of increase in the per capita cost of covered healthcare benefits of 9% and 10% were assumed for fiscal years 2013 and 2012, respectively. The rate was assumed to decrease gradually to 5.5% over the next four years and remain at that level thereafter. The dental benefit trend rate was assumed to be 5% in all future years. The discount rates used was 4.25% for both 2013 and 2012. The UAAL is being amortized as a level percentage over 30 years on an open basis.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the consolidated financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 8 – INSURANCE PLANS

The Hospital purchases professional, general, automobile, and directors and officers liability insurance from BETA Healthcare Group ("BHG"), and also purchases all-risk property insurance (including limited flood), fiduciary, crime, and excess workers' compensation coverage needs from Alliant insurance Services ("Alliant"). The Hospital's coverage is under a claims-made policy with limits of $30 million per occurrence, $30 million in the annual aggregate, and with a self-insured retention level of $50,000 per claim.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted from services provided to patients. The Hospital has actuarial estimates performed annually on its self-insurance plans of professional liability and workers' compensation benefits. Estimated liabilities (which have not been discounted) have been actuarially determined at an expected 75% confidence level and include an estimate of incurred, but not reported, claims. The balances are included in salaries and wages payable, workers' compensation and other long-term liabilities in the accompanying consolidated statements of net position.

NOTE 9 – BONDS PAYABLE

Bonds payable consists of the following obligations (in thousands):

	June 30, 2013	June 30, 2012
El Camino Hospital District 2006		
General Obligation Bonds		
Principal	$ 141,310	$ 142,280
Unamortized premium	703	889
El Camino Hospital Revenue Bonds		
Series 2008		
Principal	134,100	136,950
Unamortized premium	465	609
Series 2009		
Principal	50,000	50,000
Total long-term debt	326,578	330,728
Less current maturities	4,592	4,150
Maturities due after one year	$ 321,986	$ 326,578

2013	Balance at June 30, 2012	Payments	Balance at June 30, 2013
General obligation bonds	$ 143,169	$ 1,154	$ 142,015
Revenue bonds	187,559	2,995	184,564
	$ 330,728	$ 4,149	$ 326,579

2012	Balance at June 30, 2011	Payments	Balance at June 30, 2012
General obligation bonds	$ 144,876	$ 1,707	$ 143,169
Revenue bonds	190,462	2,903	187,559
	$ 335,338	$ 4,610	$ 330,728

General obligation bonds – Upon voter approval, in November 2003, the District issued in 2006, $148,000,000 principal amount of General Obligation Bonds, which consists of $115,665,000 of Current Interest Bonds, and $32,335,000 of Capital Appreciation Bonds. Interest on the Current Interest Bonds is payable semiannually at rates ranging from 4% to 5% and principal maturities ranging from $845,000 in 2010 to $18,050,000 in 2036 are due annually on August 1. Interest at rates ranging from 4.38% to 4.48% and principal of the Capital Appreciation Bonds are payable only at maturity.

The Current Interest Bonds maturing on or before August 1, 2016, are not subject to redemption. The Current Interest Bonds maturing on or after August 1, 2017, may be redeemed prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after February 1, 2017, at a redemption price equal to the principal amount of the Current Interest Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

The Bonds are general obligations of the District payable from ad valorem taxes. Payment of principal, interest and maturity value of the Bonds, when due, is insured by a municipal bond insurance policy.

Revenue Bonds, Series 2007 – Each Series of Bonds initially bore interest at Auction Rates for successive seven-day Auction Periods. Interest on the Bonds was payable on the Business Day immediately following the applicable Auction Period.

In May 2008, the Hospital issued $147,525,000 of Santa Clara County Financing Authority Insured Revenue Bonds, Series 2007A, B, and C, at rates of 5.125% to 5.750%, to advance refund $147,525,000 of the outstanding original Series 2007A, B, and C. Principal maturities on the serial bonds range from $950,000 in 2013 to $4,725,000 in 2041, and are due annually on February 1.

Revenue Bonds, Series 2009 – In April 2009, the Hospital issued $50,000,000 of Santa Clara County Financing Authority Insured Revenue Bonds, Series 2009A to fund completion of the Hospital Replacement construction project. Interest on the Bonds is payable on the Business Day immediately following the applicable Remarketing Period. Principal maturities on the bonds range from $100,000 in 2025 to $10,920,000 in 2044, and are due annually on February 1.

The 2009 Series Revenue bond agreement contains various restrictive covenants which include, among other things, minimum debt service coverage, maintenance of minimum liquidity, and requirement to maintain certain financial ratios.

The bonds are secured by a pledge of gross revenues to an Indenture of Trust (Indenture) dated March 16, 2007. The Indenture contains certain covenants that, among other things, require the District to deposit all Gross Revenues of the Hospital as soon as practicable upon receipt. The Indenture also requires the Hospital to maintain a long-term debt service coverage ratio of 1.15 to 1. Failure to comply with the restrictive covenants of the Indenture could result in all of the unpaid principal and accrued interest of the bonds becoming due immediately, at the option of the trustee.

Letter of credit – In March 2009, in connection with the issuance of the 2009 Series Revenue bonds, the Hospital obtained an irrevocable Letter of Credit issued by a bank for $50,000,000. This Letter of Credit expires April 2017 and requires the Hospital to maintain a long-term debt services coverage ratio of 1.20 to 1.

Interest costs – Interest costs incurred for the years ended June 30, 2013 and 2012, are (in thousands):

	June 30, 2013	June 30, 2012
Operating expense	$ 7,486	$ 7,603
Nonoperating expense	4,787	4,828
	$ 12,273	$ 12,431

Debt service requirements for bonds payable are as follows (in thousands):

Year Ending	General Obligation Bonds		Revenue Bonds	
June 30,	Principal	Interest	Principal	Interest
2014	$ 1,300	$ 4,906	$ 3,000	$ 8,947
2015	1,665	4,848	3,075	8,797
2016	2,065	4,773	3,200	8,644
2017	2,485	4,690	53,275	8,484
2018	2,950	4,578	3,350	8,320
2019-2023	30,021	27,687	18,700	38,753
2024-2028	17,977	43,159	22,050	33,201
2029-2033	33,447	31,123	25,975	26,390
2034-2038	49,400	7,308	30,550	17,899
2039-2043	-	-	20,925	7,516
2044-2045	-	-	-	347
	$ 141,310	$ 133,072	$ 184,100	$ 167,298

Interest rate swaps – On March 7, 2007, the Hospital entered into three interest rate swap agreements in connection with the issuance of the Series 2007 Revenue Bonds. The intention of the swap is to create debt with a synthetic, fixed interest rate on the variable-rate Revenue Bonds. The swaps were effective March 23, 2007, with a termination date of February 1, 2041, and notional amounts of $50 million each, these terms match the terms of the underlying Series 2007 Revenue Bonds. Under each swap transaction, the Hospital pays a fixed rate of interest of 3.204% and the counterparty pays a variable rate of interest equal to the sum of (i) 56% of USD-LIBOR-BBA plus (ii) .23%. In March 2008, the Hospital Board directed management to terminate the floating to fixed interest rate swaps when economically prudent in connection with the refunding of their Series 2007 Revenue Bonds. In December 2009, two of the three swaps were terminated. The fair value of the remaining swap is a liability of $6,675,000 at June 30, 2013, and $10,737,000 at June 30, 2012, included in other long-term obligations in the consolidated statements of net position.

Risks associated with the swap agreements – From the Hospital's perspective, the following risks are generally associated with swap agreements:

Credit risk – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event the counterparty become insolvent or their credit rating falls below BBB-/Baa2 the Hospital has the right to terminate the swap. Upon exercise of early termination the amounts due from or to the counterparty will be determined by the market pricing of the swaps at the time of termination.

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

NOTE 10 – CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding as of June 30, 2013, are as follows (in thousands):

Description	Maturity	Interest Rates	Original Issue	June 30, 2013
Capital leases - equipment net of interest	September 2011 - May 2014	0% to 7.75%	$ 25,711	$ 4,961
Less current portion				4,961
				$ -

Description	June 30, 2012	Increases	Decreases	Outstanding June 30, 2013
Capital leases - equipment	$ 10,052	$ -	$ 5,091	$ 4,961

Description	June 30, 2011	Increases	Decreases	Outstanding June 30, 2012
Capital leases - equipment	$ 15,853	$ -	$ 5,801	$ 10,052

Debt service requirements for capital lease obligations are as follows (in thousands):

Period Ending June 30,	
2014	$ 4,961
Less current portion	4,961
	$ -

NOTE 11 – RESTRICTED NET POSITION

Restricted net position consists of donor-restricted contributions and grants and cash restricted for regulatory requirements, which are to be used as follows (in thousands):

	2013	2012
Charity and other	$ 5,297	$ 4,820
Endowments	1,735	2,007
Restricted by donor for specific uses	7,032	6,827
Restricted by Department of Managed Health Care	50	50
Total restricted net position	$ 7,082	$ 6,877

Permanently restricted contributions (endowments) remain intact, with the earnings on such funds providing an ongoing source of revenue to be used primarily for education.

The Foundation is the beneficiary of gifts through testamentary and other trusts in which the gift assets are held by the trustees and administered for the benefit of the Foundation and Hospital. Pooled income trust assets are donated to the Foundation under life annuity agreements. The donors maintain the right to income earned on the assets during their lifetime and, in some cases, during the lifetime of their survivors.

Although these gifts are irrevocable, applicable GASB pronouncements permit financial statement recognition only upon satisfaction of all eligibility requirements. Since the Foundation is not eligible to receive the assets held in the trusts until maturity of the trusts (generally the donor's death), long-term receivables from charitable remainder trusts and pooled income funds are not recognized in the consolidated financial statements.

The total of these contributions, measured at the fair value of assets to be received, discounted to their estimated net present value, is $1,990,000 and $1,761,000, respectively, at June 30, 2013 and 2012. The applicable federal discount rate for June 2013 and 2012, of 3.14% and 3.71%, respectively, per annum and the Standard Ordinary Mortality Rate Table were used to arrive at the present value.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Hospital pays vendor-related expenses on behalf of the Foundation and is reimbursed for these costs incurred. The Hospital also pays employee-related expenses, which are reimbursed by the Foundation. The Foundation's employees also participate in the cash-balance pension plan, sponsored by the Hospital. Full footnote disclosures relating to the cash-balance pension plan is included in the consolidated financial statements. The Hospital performs certain administrative functions on behalf of the Foundation for which no amounts are charged to the Foundation. As of June 30, 2013 and 2012, the Foundation has a payable to the Hospital in the amount of $347,373 and $528,847, respectively. During the fiscal years 2013 and 2012, the Foundation paid the Hospital $5,984,638 and $4,565,594 for such expenses, respectively, which included amounts for operations, but also disbursements from Donor Restricted Funds in support of Hospital operations and capital acquisitions.

In June 2012, the Hospital board approved the funding of the Foundation's salaries, wages, and benefits for fiscal year 2013, thus along with 2012 fiscal year approved funding of their rent provided a maximum funding of $1,783,197 for both items on an ongoing basis.

Effective May 6, 2013, ECSC sold certain medical equipment, furnishings, fixtures, inventories, and other tangible personal property in exchange for a seven and one half (7.5%) interest in El Camino Ambulatory Surgery Center, ("ECASC"). ECSC has provided a working capital line of credit to ECASC in a principal amount of $750,000 represented by a Promissory Note and has a term of 39 months with an interest rate of 5% per annum. At June 30, 2013, there were no draws against the line of credit. The Hospital leases the space to ECASC and provides certain services, such as utilities and building/equipment maintenance. There was no rental income recorded as of June 30, 2013, related to the lease.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation – The District is a defendant in various legal proceedings arising out of the normal conduct of its business. In the opinion of management and its legal representatives, the District has valid and substantial defenses, and settlements or awards arising from legal proceedings, if any, will not exceed existing insurance coverage, nor will they have a material adverse effect on the financial position, results of operations, or liquidity of the District.

Lease commitments – The District is obligated for land and office rental under the terms of various operating lease agreements. Following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2013 (in thousands):

	Operating Lease Commitments	Lease Income	Net Lease Benefit
2014	$ 2,243	$ 7,643	$ 5,400
2015	2,105	7,377	5,272
2016	1,481	6,821	5,340
2017	1,153	6,034	4,881
2018	1,139	4,985	3,846
Thereafter	26,507	6,329	(20,178)
	$ 34,628	$ 39,189	$ 4,561

Total rental expense in 2013 and 2012 for all operating leases was approximately $2,376,000 and $2,345,000, respectively.

Regulatory environment – The healthcare 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 healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. The District is subject to routine surveys and reviews by federal, state and local regulatory authorities. The District has also received inquiries from healthcare regulatory authorities regarding its compliance with laws and regulations. Although the District management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and on-going surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. 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.

Hospital Seismic Safety Act – In the 2010 fiscal year, the Mountain View campus completed its three year construction of the Hospital Replacement Project with the opening of its new five story, 450,000 square foot, state-of-the-art hospital facility on November 15, 2009. This completion made the Mountain View hospital campus in compliance with the State of California's SB 1953 in meeting all requirements of the Hospital Seismic Safety Act of 1994.

The Hospital Replacement Project at the Mountain View campus financing included the proceeds from a combination of: (1) General Obligation bonds, totaling $148 million that were issued by the County of Santa Clara approved by the November 2003 Measure D; (2) $150 million in revenue bonds issued by the Hospital in 2007; (3) an additional $50 million revenue bond issue in 2009, and (4) cash reserves.

At the Los Gatos campus, where most of the buildings were constructed in the 1960's, the campus has been going through a seismic compliance review. Over the past two years since its acquisition structural engineers have been performing seismic assessments that have rated 12 of the 14 buildings to be seismic compliant through 2030. The two remaining buildings that require seismic upgrades at an estimated cost of $7 million, under current regulations, the work in phases must be completed between 2013 and 2015. Senate Bill 90 recently signed into law, after other details being approved would provide a seven year extension on these 2013 and 2015 seismic deadlines.

NOTE 14 – HEALTH CARE REFORM

In March 2010, President Obama signed the Health Care Reform Legislation into Law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health care coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designated to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. The District is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations and or interpretive guidance. However, the District expects that several provisions of the Health Care Reform Legislation will have a material effect on its business.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of net position date but before consolidated financial statements are available to be issued. The District recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the consolidated statement of net position date, including the estimates inherent in the process of preparing the consolidated financial statements. The District's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated statement of net position date but arose after the consolidated statement of net position date and before consolidated financial statements are available to be issued.

The Centers for Medicare & Medicaid Services ("CMS") determined that the Hospital was out of compliance with certain conditions of participation during a CMS validation survey in August, 2013 which may lead to the termination of the Hospital's status as a Medicare provider, and the Hospital would lose its ability to be reimbursed for Medicare services. The Hospital has submitted a plan of correction to CMS, and as of October 24, 2013, the Hospital received confirmation from CMS that all issues have been resolved and the Hospital has maintained its status as a Medicare provider.

SUPPLEMENTARY INFORMATION

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE – STATEMENT OF NET POSITION
June 30, 2013
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Healthcare District and Affiliates
ASSETS								
Current assets								
Cash and cash equivalents	$ 339	$ 49,691	$ 95	$ 476	$ 494	$ 164	$ -	$ 51,259
Short-term investments	4,879	187,818	1,501	11,384	-	-	-	205,582
Current portion of board designated, restricted funds and trusteed assets	11,461	2,675	-	-	-	-	-	14,136
Patient accounts receivable, net of allowances for doubtful accounts of $9,313	-	87,840	-	344	178	-	-	88,362
Prepaid expenses and other current assets	-	21,290	-	204	-	33	(1,426)	20,101
Notes receivable, current	80	-	-	-	-	-	(7)	73
Total current assets	16,759	349,314	1,596	12,408	672	197	(1,433)	379,513
Non-current cash and investments								
Board-designated funds	3,706	322,293	16,695	880	-	-	-	343,574
Restricted funds	-	8	-	50	-	-	-	58
Funds held by trustee	8,156	6,710	-	-	-	-	-	14,866
	11,862	329,011	16,695	930	-	-	-	358,498
Capital assets, net	12,127	634,950	108	174	-	-	(323)	647,036
Pledges receivable, net	-	-	1,651	-	-	-	-	1,651
Prepaid pension	-	32,868	-	-	-	-	-	32,868
Investment in health care affiliates	-	22,435	-	-	1,856	-	(1,292)	22,999
Other assets	1,393	4,662	-	-	-	-	-	6,055
Total assets	$ 42,141	$ 1,373,240	$ 20,050	$ 13,512	$ 2,528	$ 197	$ (3,048)	$ 1,448,620

(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Heathcare District and Affiliates
LIABILITIES AND NET POSITION								
Current liabilities								
Current portion capital lease obligations	$ -	$ 4,961	$ -	$ -	$ -	$ -	$ -	$ 4,961
Accounts payable and accrued expenses	-	16,746	-	553	230	137	(263)	17,403
Salaries, wages, and related liabilities	-	37,730	-	567	50	92	-	38,439
Other current liabilities	2,530	7,988	925	730	104	-	(1,170)	11,107
Estimated third-party payor settlements	-	21,117	-	-	-	-	-	21,117
Current portion of bonds payable	1,480	3,112	-	-	-	-	-	4,592
Total current liabilities	4,010	91,654	925	1,850	384	229	(1,433)	97,619
Capital lease obligations, net of current portion	-	-	-	-	-	-	-	-
Bonds payable, net of current portion	140,535	181,451	-	-	-	-	-	321,986
Other long-term obligations	-	10,005	-	-	-	-	-	10,005
Workers' compensation, net of current portion	-	23,409	-	-	-	-	-	23,409
Postretirement medical benefits, net of current portion	-	15,541	-	-	-	-	-	15,541
Total liabilities	144,545	322,060	925	1,850	384	229	(1,433)	468,560
Net position								
Invested in capital assets, net of related debt	(110,271)	445,426	108	174	-	-	(323)	335,114
Restricted - expendable	-	-	5,297	-	-	-	-	5,297
Restricted - nonexpendable	-	-	1,735	50	-	-	-	1,785
Unrestricted	7,867	605,754	11,985	11,438	2,144	(32)	(1,292)	637,864
Total net position	(102,404)	1,051,180	19,125	11,662	2,144	(32)	(1,615)	980,060
Total liabilities and net position	$ 42,141	$ 1,373,240	$ 20,050	$ 13,512	$ 2,528	$ 197	$ (3,048)	$ 1,448,620

(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Healthcare District and Affiliates
Operating revenues								
Net patient service revenue (net of provision for bad debts of $14,623)	$ -	$ 686,327	$ 54	$ -	$ 5,164	$ -	$ -	$ 691,545
Other revenue	84	14,620	-	10,298	19	-	(3,456)	21,565
Total operating revenues	84	700,947	54	10,298	5,183	-	(3,456)	713,110
Operating expenses								
Salaries, wages and benefits	-	366,006	1,438	3,036	2,522	734	(256)	373,480
Professional fees and purchased services	973	84,679	1,513	4,495	810	252	(2,073)	90,649
Supplies	-	102,144	20	-	1,439	-	-	103,603
Depreciation and amortization	250	47,839	13	31	224	-	-	48,357
Rent and utilities	-	13,811	134	200	396	-	(604)	13,937
Other	-	17,834	149	236	109	-	-	18,328
Total operating expenses	1,223	632,313	3,267	7,998	5,500	986	(2,933)	648,354
(Loss) income from operations	(1,139)	68,634	(3,213)	2,300	(317)	(986)	(523)	64,756
Nonoperating revenues (expenses):								
Investment income, net	70	25,338	1,476	59	-	-	-	26,943
Property tax revenue								
Designated for community benefit programs and operating expenses	6,514	-	-	-	-	-	-	6,514
Designated for capital expenditures	4,483	-	-	-	-	-	-	4,483
Levied for debt service	7,267	-	-	-	-	-	-	7,267
General Obligation bond interest expense	(4,787)	-	-	-	-	-	-	(4,787)
Restricted gifts, grants and bequests, and other	-	-	3,298	-	-	-	1,134	4,432
Unrealized gain on interest rate swap	-	4,061	-	-	-	-	-	4,061
Other, net	11	(9,174)	121	(1,989)	-	872	(889)	(11,048)
Total nonoperating revenues and (expenses)	13,558	20,225	4,895	(1,930)	-	872	245	37,865
Excess (deficit) of revenues over expenses before capital grants, contributions, and additions to permanent endowments	12,419	88,859	1,682	370	(317)	(114)	(278)	102,621
Capital transfers	(5,132)	4,787	(123)	-	468	-	-	-
Increase (decrease) in net assets	7,287	93,646	1,559	370	151	(114)	(278)	102,621
Total net position, beginning of year	(109,691)	957,534	17,566	11,292	1,993	82	(1,337)	877,439
Total net position, end of year	$ (102,404)	$ 1,051,180	$ 19,125	$ 11,662	$ 2,144	$ (32)	$ (1,615)	$ 980,060

Supplemental pension information – The following table summarizes the funding status of the Hospital's cash-balance pension plan (in thousands):

Fiscal Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Assets in Excess of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess/ (Shortfall) of AAL as a Percentage of Covered Payroll ((a-b)/c)
2009	$ 103,654	$ 94,352	$ 9,302	109.9%	$ 133,654	7.0%
2010	$ 90,565	$ 109,373	$ (18,808)	82.8%	$ 149,616	-12.6%
2011	$ 118,424	$ 128,154	$ (9,730)	92.4%	$ 178,936	-5.4%
2012	$ 133,257	$ 150,895	$ (17,638)	88.3%	$ 205,695	-8.6%
2013	$ 138,356	$ 156,175	$ (17,819)	88.6%	$ 209,314	-8.5%

Supplemental postretirement benefit information – The following table summarizes the funding status of the Hospital's postretirement medical benefit plan (in thousands):

Fiscal Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded Actuarial Accrued Liability UAAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Assets in Excess/ (Shortfall) of UAAL as a Percentage of Covered Payroll ((a-b)/c)
2011	$ -	$ 21,373	$ (21,373)	0.0%	$ 42,931	-49.8%
2012	$ -	$ 20,820	$ (20,820)	0.0%	$ 45,392	-45.9%
2013	$ -	$ 21,118	$ (21,118)	0.0%	$ 32,016	-66.0%

The following table summarizes the calculation of the net benefit obligation for the Hospital's postretirement medical benefit plan (in thousands):

Fiscal Year	Beginning of Year Net Benefit Obligation (a)	Annual Required Contribution (b)	Actual Contribution (c)	Annual Postretirement Benefit Cost (d)	Increase in Net Benefit Obligation (d-c)	End of Year Net Benefit Obligation ((a)+(d-c))
2011	$ 14,197	$ 982	$ 774	$ 1,112	$ 338	$ 14,535
2012	$ 14,535	$ 890	$ 727	$ 1,024	$ 297	$ 14,832
2013	$ 14,832	$ 896	$ 468	$ 1,177	$ 709	$ 15,541

The Hospital maintains records to identify and monitor the level of direct community benefit it provides. These records include the charges foregone for providing the patient care furnished under its charity care policy. For the years ended June 30, 2013 and 2012, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows (in thousands):

	2013	2012
Unpaid costs of Medi-Cal programs	$ 22,515	$ 13,175
Indigent charity care	2,417	3,154
Other community-based programs	19,009	13,539
Total community benefits	$ 43,941	$ 29,868

In furtherance of its purpose to benefit the community, the Hospital provides numerous other services to the community for which charges are not generated and revenues have not been accounted for in the accompanying consolidated financial statements. These services include providing access to healthcare through interpreters, referral and transport services, healthcare screening, community support groups and health educational programs, and certain home care and hospice programs. The estimated costs of Medicare programs in excess of reimbursement from Medicare were $66,852,000 and $56,810,000 for the years ended June 30, 2013 and 2012, respectively.

The Hospital also provides services to the community through the operations of the El Camino Hospital Auxiliary, Inc. (the "Auxiliary"). Services provided by volunteers of the Auxiliary, free of charge to the community, include assistance and counseling to patients and visitors, provision of scholarship awards to qualifying paramedical students, and daily personal contact with members of the community who are living alone. In 2013 and 2012, these volunteers contributed approximately 122,000 and 126,000 hours, respectively in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.