PRICEWATERHOUSECOOPERS

Washington Township Health Care District

Financial Statements
June 30, 2010 and 2009

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

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Report of Independent Auditors

The Board of Directors
Washington Township Health Care District

In our opinion, the financial statements of the business-type activities and discretely presented component unit of the Washington Township Health Care District (the District) which collectively comprise the District's basic financial statements as listed in the table of contents, present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the District at June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The Management's Discussion and Analysis on pages 2 through 13 and the supplemental pension and post-employment benefit information on pages 44 through 47 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 8, 2010

Overview of the Financial Statements

The annual report consists of Management's Discussion and Analysis, financial statements and notes to those statements. These statements are organized to present the Washington Township Health Care District (the District) and Washington Township Healthcare Foundation (the Foundation) as a financial whole, an entire operating entity. Readers should also review the accompanying notes to the financial statements to enhance their understanding of the District's and Foundation's financial performance.

The balance sheets, the statements of revenues, expenses, and changes in net assets, and statements of cash flows provide an indication of the District's and Foundation's financial health. The balance sheets include all of the District's and Foundation's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants, donor restrictions or other purposes. The statements of revenues, expenses, and changes in net assets report all of the revenues and expenses and increases and decreases in net assets during the time period indicated, that resulted from the District's and Foundation's operating and non-operating transactions during the year. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources and uses such as investment income, repayment of bonds, and capital additions and improvements.

District Financial Highlights for Fiscal Year 2010

- Total assets increased $149.0 million, from $567.2 million at June 30, 2009 to $716.2 million at June 30, 2010. Total cash and investments increased by $94.8 million, from $282.1 million to $376.9 million, while net patient accounts receivable increased $6.1 million, from $45.6 million to $51.7 million. Days of gross revenue in accounts receivable were 70 at June 30, 2010 as compared to 65 at June 30, 2009. Net capital assets increased $54.5 million, from $206.0 million to $260.5 million, and prepaid pension costs decreased $12.6 million, from $14.1 million to $1.5 million.
- Total liabilities increased $92.0 million, from $267.5 million at June 30, 2009 to $359.5 million at June 30, 2010. Current liabilities increased $13.5 million, from $73.6 million to $87.1 million, and long-term liabilities increased $78.5 million, from $193.9 million to $272.4 million.
- Net assets increased $57.0 million for 2010, from $299.7 million to $356.7 million.

District Financial Highlights for Fiscal Year 2009

- Total assets increased $51.3 million, from $515.9 million at June 30, 2008 to $567.2 million at June 30, 2009. Total cash and investments increased by $52.0 million, from $230.1 million to $282.1 million, while net patient accounts receivable decreased $18.7 million, from $64.3 million to $45.6 million. Days of gross revenue in accounts receivable were 65 at June 30, 2009 as compared to 71 at June 30, 2008. Net capital assets increased $16.0 million, from $190.0 million to $206.0 million, and prepaid pension costs decreased $1.6 million, from $15.7 million to $14.1 million.
- Total liabilities increased $7.8 million, from $259.7 million at June 30, 2008 to $267.5 million at June 30, 2009. Current liabilities increased $15.0 million, from $58.6 million to $73.6 million, and long-term liabilities decreased $7.1 million, from $201.0 million to $193.9 million.
- Net assets increased $43.5 million for 2009, from $256.2 million to $299.7 million.

Foundation Financial Highlights for Fiscal Year 2010

- Total assets decreased $0.3 million, from $6.6 million at June 30, 2009 to $6.3 million at June 30, 2010. Total cash and investments increased by $0.1 million, from $5.4 million to $5.5 million, while net contributions receivable decreased $0.4 million from $1.1 million to $0.7 million.
- Net assets decreased $0.2 million for 2010, from $6.5 million to $6.3 million.

Foundation Financial Highlights for Fiscal Year 2009

- Total assets increased $1.4 million, from $5.2 million at June 30, 2008 to $6.6 million at June 30, 2009. Total cash and investments increased by $1.6 million, from $3.8 million to $5.4 million, while net contributions receivable decreased $0.2 million from $1.3 million to $ 1.1 million.
- Net assets increased $1.4 million for 2009, from $5.1 million to $6.5 million.

Financial Analysis of the District

The District's net assets increased $57.0 million, from $299.7 million at June 30, 2009 to $356.7 million at June 30, 2010.

Table 1 provides a summary of the District's assets, liabilities and net assets:

Table 1
Summary of Assets, Liabilities, and Net Assets
June 30, 2010, 2009 and 2008

	2010	2009	2008
		(In thousands)	
Assets:			
Current assets	$ 92,980	$ 74,032	$ 86,301
Long-term investment and restricted funds	350,536	265,985	220,925
Capital assets, net	260,461	206,033	190,039
Other assets	12,261	21,119	18,626
Total assets	$ 716,238	$ 567,169	$ 515,891
Liabilities:			
Current liabilities	$ 87,071	$ 73,585	$ 58,633
Long-term debt	240,510	163,530	172,066
Other long-term liabilities	31,920	30,342	28,973
Total liabilities	359,501	267,457	259,672
Net assets:			
Unrestricted	238,970	191,686	152,364
Invested in capital assets, net of related debt	114,963	105,222	101,051
Restricted - expendable	2,804	2,804	2,804
Total net assets	356,737	299,712	256,219
Total liabilities and net assets	$ 716,238	$ 567,169	$ 515,891

In 2010, the District's cash and investment position increased $94.8 million. Table 2 provides a summary of cash and investments:

Table 2
Summary of Cash and Investments
June 30, 2010, 2009 and 2008

	2010	2009	2008
		(In thousands)	
Cash and cash equivalents and short-term investments	$ 26,394	$ 16,088	$ 9,193
Board designated fund – funded depreciation	194,789	160,502	117,669
Board designated fund – pension funding	45,882	22,129	—
Workers' compensation fund	10,931	10,567	10,051
Unexpended capital bond fund, excluding amounts required for current liabilities	96,130	69,983	90,401
Specific purpose fund	2,804	2,804	2,804
Total available cash and investments	$ 376,930	$ 282,073	$ 230,118

The District maintains sufficient cash, short-term investments and Board designated balances to cover all short-term liabilities. All excess cash is transferred to the Board designated funds for future needs.

As of June 30, 2010 the District has reserved $45.9 million as Board designated funds for future pension plan funding. The funded ratio for the pension plan would be approximately 85% at June 30, 2010 if these funds were included in the pension plan assets.

Capital Assets, Net

Net capital assets increased $54.5 million from $206.0 million at June 30, 2009 to $260.5 million at June 30, 2010. This increase resulted from $65.9 million in capital additions and $7.6 million in net capitalized interest expense and investment income offset by $19.0 million in operating and non-operating depreciation of the District's assets. The capital additions include $11.5 million in equipment, building, and land improvements combined with an increase of $62.0 million in construction in progress. A majority of the capital expenditures in the current year were related to construction work on the Central Utility Plant and the new Center for Joint Replacement. The District continued its upgrade of information technology with investments in the replacement and expansion of critical infrastructure technology including: wireless network infrastructure, electronic security and auditing for protected health information, ambulatory Electronic Medical Record (EMR) expansion, cardiac PACS and ECG, a mobile care phlebotomy system and McKesson multi-system unified upgrades. At June 30, 2010, outstanding commitments related to capital projects totaled $48.2 million.

Net capital assets increased $16.0 million from $190.0 million at June 30, 2008 to $206.0 million at June 30, 2009. This increase resulted from $32.1 million in capital additions and $2.8 million in net capitalized interest expense and investment income, offset by $18.9 million in operating and non-operating depreciation of the District's assets. The capital additions include $26.2 million in construction in progress combined with an increase of $8.7 million in equipment, building, and land improvements. A significant portion of the capital expenditures in the current year were related to construction of the new Central Utility Plant, underground utility tunnels, the new Center for Joint Replacement and various enabling projects. The District continued its upgrade of information technology systems by completing several major projects, including a post-discharge electronic medical record, a new Emergency Department information system, enhanced remote access and partial implementation of ambulatory Electronic Medical Records (EMRs). Information technology infrastructure upgrades included improved network redundancy, wireless network enhancements, high-availability servers and modernization of the PBX consoles.

All of these investments help serve the needs of the District residents.

Debt Administration

As part of the obligations under the bond indentures for the 2009, 2007 and 1999 Series Revenue Bonds, the District has agreed to maintain a long-term debt coverage ratio of no less than 1.1 to 1.0 on a yearly basis. As of June 30, 2010, the District's long-term debt coverage ratio was 2.9 to 1.0. For the year ended June 30, 2009, the District's long-term debt coverage ratio was 3.0 to 1.0. For both years ended June 30, 2010 and 2009, the District's Moody's rating was A3 with a positive outlook.

Table 3 shows the revenues, expenses, and changes in net assets for the District for 2010, 2009 and 2008:

Table 3
Summary of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2010, 2009 and 2008

	2010	2009	2008
		(In thousands)	
Operating revenues:			
Net patient service revenues	$ 413,469	$ 372,259	$ 324,458
Other	14,099	10,542	9,952
Total operating revenues	427,568	382,801	334,410
Operating expenses:			
Salaries and wages	173,857	157,088	140,639
Employee benefits	64,515	54,222	49,655
Supplies	51,761	50,441	47,148
Professional fees	33,246	28,572	23,507
Purchased services	33,713	32,574	28,690
Depreciation	18,490	18,562	18,730
Insurance	1,772	1,712	1,993
Other operating expenses	9,036	7,626	6,362
Total operating expenses	386,390	350,797	316,724
Operating income	41,178	32,004	17,686
Non-operating revenues and expenses, net	15,847	12,989	12,216
Increase in net assets before special item	57,025	44,993	29,902
Grant to Alameda County Health Care Services	—	(1,500)	—
Increase in net assets	57,025	43,493	29,902
Total net assets, beginning of year	299,712	256,219	226,317
Total net assets, end of year	$ 356,737	$ 299,712	$ 256,219

Financial Analysis of the Foundation

The Foundation's net assets decreased $0.3 million, from $6.6 million at June 30, 2009 to $6.3 million at June 30, 2010. The Foundation's net assets increased $1.4 million, from $5.2 million at June 30, 2008 to $6.6 million at June 30, 2009.

Table 4 provides a summary of the Foundation's assets, liabilities, and net assets:

Table 4
Summary of Assets, Liabilities, and Net Assets
June 30, 2010, 2009 and 2008

	2010	2009	2008
		(In thousands)	
Assets:			
Cash and cash equivalents	$ 898	$ 289	$ 311
Contributions receivable, net	731	1,147	1,339
Prepaid expenses and other	3,715	4,261	2,474
Investments	958	897	1,035
Total assets	$ 6,302	$ 6,594	$ 5,159
Liabilities:			
Accounts payable and accrued expenses	$ 3	$ 143	$ 22
Total liabilities	3	143	22
Net assets:			
Unrestricted	432	379	496
Restricted - expendable	5,867	6,072	4,641
Total net assets	6,299	6,451	5,137
Total liabilities and net assets	$ 6,302	$ 6,594	$ 5,159

In 2010, the Foundation's cash and investment position, including State of California Local Agency Investment Fund (LAIF) investments held by the District on behalf of the Foundation, increased $0.1 million from $5.4 million at June 30, 2009 to $5.5 million at June 30, 2010. In 2009, the Foundation's cash and investment position increased $1.6 million from $3.8 million at June 30, 2008 to $5.4 million at June 30, 2009.

Table 5 provides a summary of cash and investments for the Foundation:

Table 5
Summary of Cash and Investments
June 30, 2010, 2009 and 2008

	2010	2009	2008
		(In thousands)	
Cash and cash equivalents	$ 898	$ 289	$ 311
Money market and certificates of deposit	519	519	523
Equity mutual fund	439	378	512
	1,856	1,186	1,346
Local agency investment funds held by District on behalf of Foundation	3,700	4,244	2,442
Total available cash and investments	$ 5,556	$ 5,430	$ 3,788

Table 6 shows the Foundation's activities and changes in net assets for 2010, 2009 and 2008:

Table 6
Statement of Activities and Changes in Net Assets
Years ended June 30, 2010, 2009 and 2008

	2010 (In thousands)			2009 (In thousands)			2008 (In thousands)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support:									
Contributions	$ 7	$ 736	$ 743	$ 18	$ 2,049	$ 2,067	$ 27	$ 1,578	$ 1,605
Contributed services	591	48	639	489	43	532	470	56	526
Fund-raising events	-	237	237	-	227	227	-	187	187
Investment income	51	-	51	113	-	113	107	-	107
Unrealized gain/(loss) on investments	51	-	51	(143)	-	(143)	(83)	-	(83)
	700	1,021	1,721	477	2,319	2,796	521	1,821	2,342
Net assets released from restrictions	1,226	(1,226)	-	888	(888)	-	556	(556)	-
Total revenues, gains, and support	1,926	(205)	1,721	1,365	1,431	2,796	1,077	1,265	2,342
Expenses:									
General and administrative	597	-	597	587	-	587	803	-	803
Fund-raising events expenses	269	-	269	284	-	284	247	-	247
Donation to Pathways Hospice	75	-	75	65	-	65	63	-	63
Donation to American Red Cross Haiti Relief	9	-	9	-	-	-	-	-	-
Beretta Scholarship	2		2	-	-	-	-	-	-
Donation to Breast Cancer Store	-	-	-	20	-	20	-	-	-
Donation to Washington Township Health Care District	921	-	921	526	-	526	241	-	241
Total expenses	1,873	-	1,873	1,482	-	1,482	1,354	-	1,354
Increase (decrease) in net assets	53	(205)	(152)	(117)	1,431	1,314	(277)	1,265	988
Net assets, beginning of year	379	6,072	6,451	496	4,641	5,137	713	3,436	4,149
Transfers			-	-	-	-	60	(60)	-
Net assets, end of year	$ 432	$ 5,867	$ 6,299	$ 379	$ 6,072	$ 6,451	$ 496	$ 4,641	$ 5,137

Fiscal Year 2010 Revenue and Expense Analysis for the District

Net Patient Service Revenues

For the year ended June 30, 2010, net patient service revenues increased by $41.2 million or 11%. The net increase resulted from an increase in patient days, higher surgical volumes, increased emergency room activities, and a market-based price adjustment.

The District receives Federal funds through the Medicare program and State funds through the Medi-Cal program. The District also receives funds through the Alameda County Medi-Cal HMO program.

Inpatient Business Activity

The District's gross inpatient revenue increased 11.6% from $1.24 billion in fiscal year 2009 to $1.38 billion in fiscal year 2010. Total acute patient days increased by 632 from 62,947 to 63,579. The overall increase in inpatient revenue can be attributed to a higher level of patient days, market-based price adjustment, and higher surgical and cardiac procedures.

Table 7 presents the patient days for each year and the percentage change:

Table 7
Inpatient Business Activity

Specialty	2010 Days	2009 Days	% Change
Medical/Surgical	47,645	46,547	2.4%
Critical Care	8,504	8,706	-2.3%
Pediatrics	1,143	998	14.5%
Obstetrics	6,287	6,696	-6.1%
Subtotal	63,579	62,947	1.0%
Newborn	4,818	5,232	-7.9%
Total	68,397	68,179	0.3%

The overall case mix index for the District, which is a measure of patient acuity, increased from 1.3716 in 2009 to 1.3751 in 2010.

Outpatient Business Activity

The District's gross outpatient revenue increased 14% in the current year, from $365.5 million in fiscal year 2009 to $416.7 million in fiscal year 2010. The increase was due primarily to increases in outpatient surgical volumes and outpatient cardiac procedures, combined with market-based price adjustments.

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 73.5% and 73.3% for fiscal years ended June 30, 2010 and 2009, respectively.

Charity Care

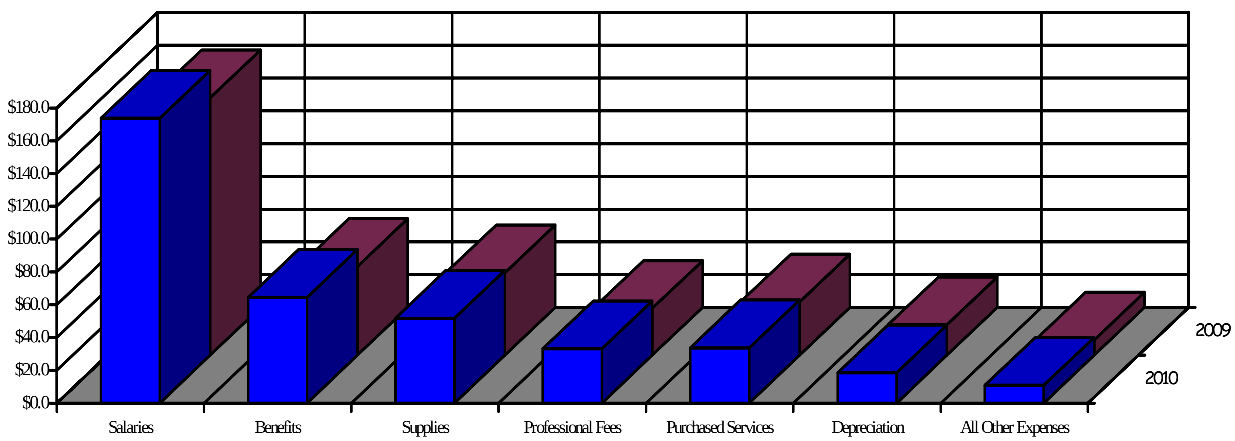
The District provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $19.3 million and $20.3 million in charges forgone related to charity care for patient services during fiscal years 2010 and 2009, respectively.

Provisions for Bad Debt

The provisions for bad debt and charity care (expressed as a percentage of gross revenues) was 3.45% in 2010 compared to 3.41% in 2009. Private Pay charges as a percentage of total gross charges were 5.8% and 4.0% for the fiscal years ended June 30, 2010 and 2009, respectively.

Operating Expenses

Total operating expenses were $386.4 million and $350.8 million for the years ended June 30, 2010 and 2009, respectively, as summarized in the graph below:



Salaries and Wages

Total District salary and wages increased 10.7% from $157.1 million in 2009 to $173.9 million in 2010.

Total FTEs increased by 66 to 1,530 at June 30, 2010 from 1,464 at June 30, 2009, an increase of 5%.

Approximately 79% of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various memoranda of understanding that have been approved by the District's Board of Directors.

Employee Benefits

Overall, the District's benefits cost rose by 19.0%, from $54.2 million at June 30, 2009 to $64.5 million at June 30, 2010. The increase resulted from a higher level of full time equivalents, higher pension and health and welfare costs, and increased benefit utilization.

Fiscal Year 2009 Revenue and Expense Analysis for the District

Net Patient Service Revenues

For the year ended June 30, 2009, net patient service revenues increased by $47.8 million or 15%. The increase was driven by total gross patient revenue that increased $256.1 million, offset by total contractual allowances, bad debt and charity care that increased $208.3 million.

The District receives Federal funds through the Medicare program and State funds through the Medi-Cal program. The District also receives funds through the Alameda County Medi-Cal HMO program.

Inpatient Business Activity

The District's gross inpatient revenue increased 18% in the current year, from $1,047.1 million in fiscal year 2008 to $1,235.2 million in fiscal year 2009. Total admissions decreased by 224 from 13,525 for the year ended June 30, 2008 to 13,301 for the year ended June 30, 2009. A 2.8% increase in patient acuity based on case mix index for 2009 drove an increase in patient days of 877 from 62,070 to 62,947. The increase in acuity is attributable substantially to a 5% increase in the Cardiac Cath product line volume. The increase in acuity and patient days also drove an increase in ancillary services provided, such as lab and X-ray. These factors, combined with market-based price adjustments that took effect during the year, are responsible for the overall increase of inpatient revenue.

Table 8 presents the patient days for each year and the percentage change:

Table 8
Inpatient Business Activity

Specialty	2009 Days	2008 Days	% Change
Medical/Surgical	46,547	45,277	2.8%
Critical Care	8,706	8,454	3.0%
Pediatrics	998	880	13.4%
Obstetrics	6,696	7,459	-10.2%
Subtotal	62,947	62,070	1.4%
Newborn	5,232	5,911	-11.5%
Total	68,179	67,981	0.3%

The overall case mix index for the District, which is a measure of patient acuity, was 1.3716 and 1.3345 in 2009 and 2008, respectively.

Outpatient Business Activity

The District's gross outpatient revenue increased 23% in the current year, from $297.5 million in fiscal year 2008 to $365.5 million in fiscal year 2009. The increase was due primarily to increased outpatient surgical cases combined with increased volumes in the Cath Lab, Clinical Lab and Emergency Department and a market-based price adjustment.

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 73.3% and 72.5% for fiscal years ended June 30, 2009 and 2008, respectively. Contractual adjustments increased in the current year mainly as a result of the increase in gross patient revenue.

Charity Care

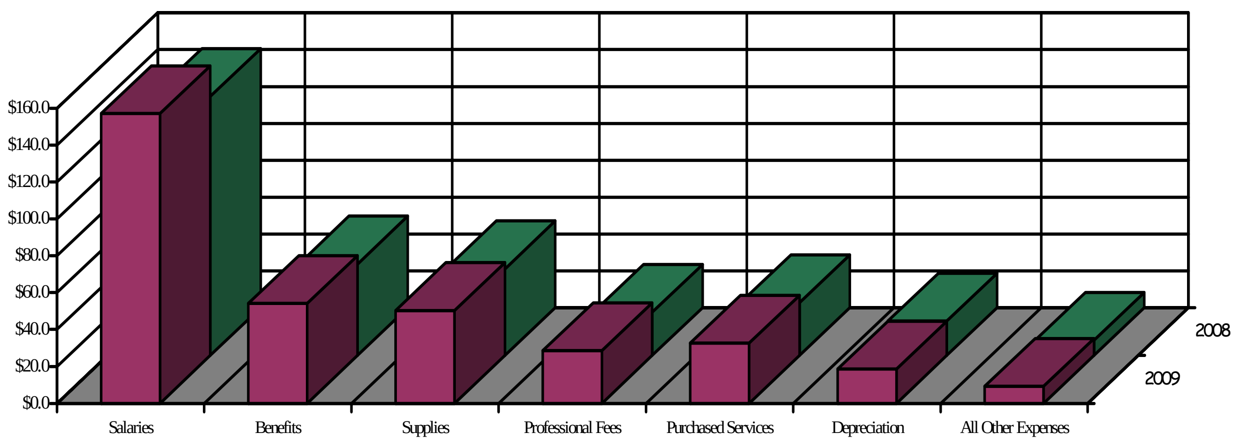
The District provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $20.3 million and $9.9 million in charges forgone related to charity care for patient services during fiscal years 2009 and 2008, respectively.

Provisions for Bad Debt

The provisions for bad debt and charity care (expressed as a percentage of gross revenues) was 3.41% in 2009 compared to 3.37% in 2008. Private Pay charges as a percentage of total gross charges were 4.0% and 4.8% for fiscal years ended June 30, 2009 and 2008, respectively.

Operating Expenses

Total operating expenses were $350.8 million and $316.7 million for the years ended June 30, 2009 and 2008, respectively, as summarized in the graph below:



Salaries and Wages

Total District salary and wages increased 12% from $140.6 million in 2008 to $157.1 million in 2009.

Total FTEs increased by 62 to 1,464 at June 30, 2009 from 1,402 at June 30, 2008, an increase of 4%.

Approximately 80% of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various memoranda of understanding that have been approved by the District's Board of Directors. To remain competitive in its market, the Board grants similar market-based pay increases to non-union employees.

Employee Benefits

Overall, the District's benefits cost rose by 9%, from $49.7 million at June 30, 2008 to $54.2 million at June 30, 2009. Net self-insured health costs increased due to increased claim payments in the current year, combined with a lower level of reinsurance reimbursements related to large claims. Pension costs increased as a result of lower than anticipated returns on the assets held in the District's pension portfolio. Workers compensation expense increased due to a higher level of claims experience in 2009 than that experienced in 2008.

Fiscal Year 2010 Revenue and Expense Analysis for the Foundation

Contributions and Contributed Services

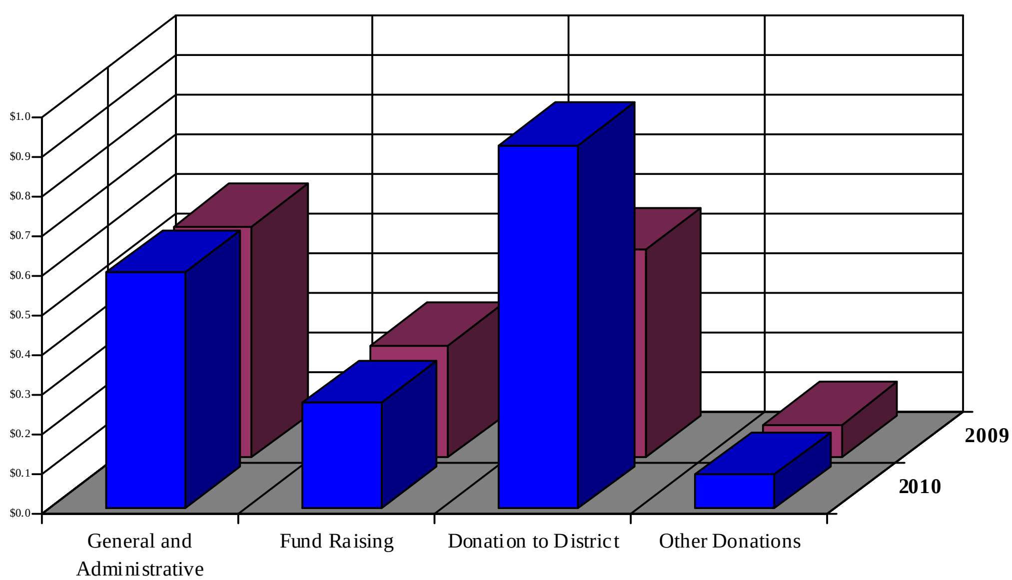
Total contributions and pledges decreased 46.2%, from $2.6 million in 2009 to $1.4 million in 2010. The decrease in the current year can be primarily attributed to several very large gifts received in 2009 that were not repeated in the current year. The capital campaign to raise funds for construction of the new Critical Care Pavilion and Center for Joint Replacement generated a significant portion of the contributions in 2010.

Fund Raising Events

Total fund raising revenue increased by 4.4%, from $227 thousand in 2009 to $237 thousand in 2010. The major fund raising activities for 2010 were the annual golf tournament, the Tree of Angels and the annual Top Hat dinner and dance.

Expenses

Total expenses for the Foundation were $1.9 million and $1.5 million for the years ended June 30, 2010 and 2009, respectively, as summarized in the graph below:



Fiscal Year 2009 Revenue and Expense Analysis for the Foundation

Contributions and Contributed Services

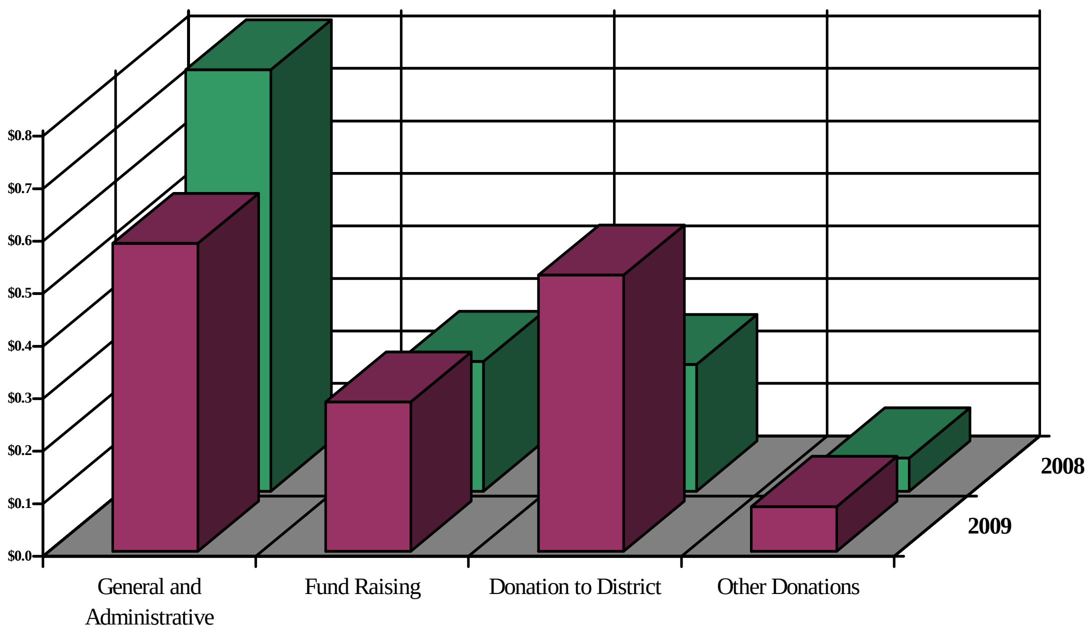
Total contributions and pledges increased 23.8% from $2.1 million in 2008 to $2.6 million in 2009. The capital campaign to raise funds for construction of the new Critical Care Pavilion and Center for Joint Replacement continued to generate a significant portion of the contribution revenue.

Fund Raising Events

Total fund raising revenue increased in the current year by 21%, from $187 thousand in 2008 to $227 thousand in 2009. The major fund raising activities for 2009 were the annual golf tournament, the Tree of Angels and the annual Top Hat dinner and dance.

Expenses

Total expenses for the Foundation were $1.5 million and $1.4 million for fiscal years ended June 30, 2009 and 2008, respectively, as summarized in the graph below:



Economic Factors Affecting Next Year

The District's Board of Directors approved the fiscal year 2010-2011 operating budget at their June 2010 meeting. The operating budget was developed after a review of key volume indicators and trends. The budget incorporates the District's current Institutional Agenda as well as economic factors, such as estimated population growth and unemployment rates.

The District has begun preliminary activities related to the issuance of new debt instruments in the form of revenue bonds. The proceeds from these bonds will be used for construction of the building that will house the Center for Joint Replacement and other major capital projects. The total bond issuance is expected to be $60 million. As of the publication date for these statements, the effective interest rate and other issuance costs for these debt instruments has not been determined. This debt issuance is expected to be completed during the 2010-2011 fiscal year.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Balance Sheets

June 30, 2010 and 2009

Assets	District 2010	District 2009	Foundation 2010	Foundation 2009
Current assets:				
Cash and cash equivalents	$ 12,398,000	$ 5,511,000	$ 898,000	$ 289,000
Short-term investments	13,996,000	10,577,000	958,000	897,000
Patient accounts receivable, less allowance for estimated uncollectibles of $35,865,000 and $31,436,000 in 2010 and 2009, respectively	51,684,000	45,558,000	—	—
Contributions receivable, net, due in less than 1 year	—	—	50,000	4,000
Due from District	—	—	3,700,000	4,244,000
Supplies	2,597,000	2,323,000	—	—
Prepaid expenses and other	12,305,000	10,063,000	15,000	17,000
Total current assets	92,980,000	74,032,000	5,621,000	5,451,000
Long-term investment and restricted funds:				
Board designated for capital, debt and workers' compensation	205,720,000	171,069,000	—	—
Board designated for pension funding	45,882,000	22,129,000	—	—
Held by trustee	96,130,000	69,983,000	—	—
Restricted funds	2,804,000	2,804,000	—	—
Capital assets, net	260,461,000	206,033,000	—	—
Other assets:				
Prepaid pension costs	1,468,000	14,144,000	—	—
Contributions receivable, net, due in more than 1 year	—	—	681,000	1,143,000
Unamortized bond issuance costs and other	3,186,000	2,746,000	—	—
Other noncurrent asset	7,607,000	4,229,000	—	—
Total assets	$ 716,238,000	$ 567,169,000	$ 6,302,000	$ 6,594,000
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	$ 3,290,000	$ 8,610,000	$ —	$ —
Accounts payable and accrued expenses	25,300,000	20,598,000	3,000	143,000
Due to Foundation	3,700,000	4,244,000	—	—
Due to government agencies	10,019,000	5,106,000	—	
Accrued liabilities:				
Payroll related	15,483,000	11,618,000	—	—
Vacation	12,856,000	11,351,000	—	—
Health benefits	3,619,000	3,253,000	—	—
Interest	6,089,000	3,989,000	—	—
Other	6,715,000	4,816,000	—	—
Total current liabilities	87,071,000	73,585,000	3,000	143,000
Long-term liabilities:				
Workers’ compensation claims	6,787,000	7,209,000	—	—
Post-retirement employee medical benefits	25,133,000	23,133,000	—	—
Long-term debt, net of current maturities	168,597,000	116,356,000	—	—
Long-term debt, general obligation bonds	71,913,000	47,174,000	—	—
Total long-term liabilities	272,430,000	193,872,000	—	—
Total liabilities	359,501,000	267,457,000	3,000	143,000
Net assets:				
Unrestricted	238,970,000	191,686,000	432,000	379,000
Invested in capital assets, net of related debt	114,963,000	105,222,000	—	—
Restricted - expendable	2,804,000	2,804,000	5,867,000	6,072,000
Total net assets	356,737,000	299,712,000	6,299,000	6,451,000
Total liabilities and net assets	$ 716,238,000	$ 567,169,000	$ 6,302,000	$ 6,594,000

The accompanying notes are an integral part of these financial statements.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

	District		Foundation	
	2010	2009	2010	2009
Operating revenues:				
Net patient service revenues	$ 413,469,000	$ 372,259,000	$ —	$ —
Other	13,178,000	10,016,000	—	—
Contributions	921,000	526,000	743,000	2,067,000
Contributed services	—	—	639,000	532,000
Fund raising events	—	—	237,000	227,000
Total operating revenues	427,568,000	382,801,000	1,619,000	2,826,000
Operating expenses:				
Salaries and wages	173,857,000	157,088,000	—	—
Employee benefits	64,515,000	54,222,000	—	—
Supplies	51,761,000	50,441,000	—	—
Professional fees	33,246,000	28,572,000	—	—
Purchased services	33,713,000	32,574,000	—	—
Depreciation	18,490,000	18,562,000	—	—
Insurance	1,772,000	1,712,000	—	—
Fund raising expenses	—	—	269,000	284,000
Donations	—	—	1,007,000	611,000
Other operating expenses	9,036,000	7,626,000	597,000	587,000
Total operating expenses	386,390,000	350,797,000	1,873,000	1,482,000
Operating income	41,178,000	32,004,000	(254,000)	1,344,000
Non-operating revenues and expenses:				
Investment income	6,552,000	5,710,000	51,000	113,000
Net increase/(decrease) in the fair value of investments	8,264,000	1,426,000	51,000	(143,000)
Interest expense, including amortization of bond issuance costs and discount on bonds payable	(3,047,000)	(3,754,000)	—	—
Property tax revenue	3,785,000	8,912,000	—	—
Other non-operating income	293,000	695,000	—	—
Total non-operating revenues and expenses	15,847,000	12,989,000	102,000	(30,000)
Increase in net assets before special item	57,025,000	44,993,000	(152,000)	1,314,000
Grant to Alameda County Health Care Services	—	(1,500,000)	—	—
Increase in net assets after special item	57,025,000	43,493,000	(152,000)	1,314,000
Total net assets, beginning of year	299,712,000	256,219,000	6,451,000	5,137,000
Total net assets, end of year	$ 356,737,000	$ 299,712,000	$ 6,299,000	$ 6,451,000

The accompanying notes are an integral part of these financial statements.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	District		Foundation	
	2010	2009	2010	2009
Cash flows from operating activities:				
Cash received from patient service activities	$ 407,343,000	$ 391,003,000	$ —	$ —
Other cash receipts	14,099,000	10,542,000	1,396,000	2,096,000
Cash payments to suppliers	(110,174,000)	(111,719,000)	(1,372,000)	(424,000)
Cash payments to employees	(232,636,000)	(207,034,000)	—	—
Net cash provided by operating activities	78,632,000	82,792,000	24,000	1,672,000
Cash flows from non-capital financing activities:				
Donation from Foundation to District	1,032,000	377,000	(1,032,000)	(377,000)
Grant to Alameda County Health Care Services	—	(1,500,000)	—	—
Net cash provided by/(used in) non-capital financing activities	1,032,000	(1,123,000)	(1,032,000)	(377,000)
Cash flows from capital and related financing activities:				
Purchases of capital assets	(65,645,000)	(31,799,000)	—	—
Principal paid on debt	(8,610,000)	(8,810,000)	—	—
Interest paid on debt	(8,728,000)	(8,514,000)	—	—
Proceeds from debt issuance	79,400,000	—	—	—
Proceeds from property taxes levied by the County	4,129,000	8,912,000	—	—
Net cash provided by/(used in) capital and related financing activities	546,000	(40,211,000)	—	—
Cash flows from investing activities:				
Purchases of investments	(240,620,000)	(129,728,000)	(411,000)	(1,807,000)
Sales of investments	160,659,000	76,980,000	1,977,000	377,000
Investment income	6,807,000	8,521,000	51,000	113,000
Purchase of interest in joint venture	(1,015,000)	—	—	—
Other non-operating income received	846,000	1,280,000	—	—
Net cash provided by/(used in) investing activities	(73,323,000)	(42,947,000)	1,617,000	(1,317,000)
Net increase/(decrease) in cash and cash equivalents	6,887,000	(1,489,000)	609,000	(22,000)
Cash and cash equivalents at beginning of year	5,511,000	7,000,000	289,000	311,000
Cash and cash equivalents at end of year	$ 12,398,000	$ 5,511,000	$ 898,000	$ 289,000
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 41,178,000	$ 32,004,000	$ (254,000)	$ 1,344,000
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	18,490,000	18,562,000	—	—
Loss on disposal of assets	—	12,000	—	—
Provision for doubtful accounts and charity care	61,661,000	54,123,000	—	—
Changes in assets and liabilities:				
Accounts receivables	(67,787,000)	(35,378,000)	417,000	192,000
Supplies, prepaid expenses, and other current assets	(2,516,000)	(4,420,000)	2,000	15,000
Other assets	9,666,000	1,595,000	—	—
Due to Foundation	(544,000)	1,802,000	—	—
Due from/to government agencies	4,913,000	5,340,000	—	—
Accounts payable and accrued expenses	4,702,000	1,190,000	(141,000)	121,000
Payroll, vacation, and health accrued liabilities	5,736,000	4,276,000	—	—
Other liabilities	3,133,000	3,686,000	—	—
Net cash provided by operating activities	$ 78,632,000	$ 82,792,000	$ 24,000	$ 1,672,000
Non-cash transactions				
Capitalized interest	$ 7,571,000	$ 2,753,000	$ —	$ —
Accounts payable and accrued expenses for property and equipment purchases	$ 8,876,000	$ 4,130,000	$ —	$ —
Contributed services	$ —	$ —	$ 639,000	$ 532,000

The accompanying notes are an integral part of these financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

District

Washington Township Health Care District (the District) is a political subdivision of the State of California organized under the Local Health Care District Law, as set forth in the Health and Safety Code of the State of California. It is exempt from federal and state income taxes. The District's mission is to provide broad healthcare services to their residents. The District’s boundaries encompass an area of approximately 124 square miles in southern Alameda County. The District operates the Washington Hospital Healthcare System, which consists of Washington Hospital (the Hospital), a 359-bed licensed acute care hospital located in Fremont, California. Included within the District boundaries are the cities of Fremont, Newark and Union City, the southern portions of the City of Hayward and the unincorporated area known as Sunol.

The District is the sole corporate member of Washington Township Hospital Development Corporation (DEVCO). DEVCO was formed in 1984 to train medical personnel, develop medical treatment programs, perform medical research and development, and render medical services to the general public. The DEVCO Board is appointed by the District’s Board. DEVCO contractually operates a radiation oncology center and a surgery center. DEVCO also operates an outpatient rehabilitation center and a primary care clinic. DEVCO is considered a component unit of the District, and is blended in the District’s financial statements because its services exclusively benefit the District.

The accompanying financial statements include the accounts and transactions of the Hospital and DEVCO. All significant inter-company accounts and transactions have been eliminated in the financial statements.

Foundation

Washington Hospital Healthcare Foundation (the Foundation), founded in 1982, is a California nonprofit corporation exempt from federal and state income tax. The Foundation was established to raise funds for the operation, maintenance, and modernization of the facilities of the District, its related corporations, and sponsored programs which benefit the District. Accordingly, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. Complete financial statements for the Foundation can be obtained from the Foundation at 2000 Mowry Avenue, Fremont, CA 94538.

(b) Accounting Standards

District

Pursuant to GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, which do not conflict or contradict Government Accounting Standards Board (GASB) pronouncements.

Foundation

The Foundation is a private nonprofit organization that reports under FASB standards, including generally accepted accounting principles for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation figures. No modifications have been made to the Foundation's financial information in the District's financial reporting entity for these differences.

(c) Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, amounts due to third-party payors, self-insurance liabilities and employee benefit costs. Actual results may differ from those estimates.

(d) Proprietary Fund Accounting

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

(e) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

(f) Contributed Services

Certain general and administrative support to the Foundation is provided by the District. The value of the services is recorded as a contribution and an equivalent amount recorded as other operating expense.

(g) Contributions Received

Contributions are recognized by the Foundation as revenues in the period received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as temporarily restricted and then reclassified from temporarily restricted to unrestricted net assets. Contributions are derived primarily from donors in Northern California.

(h) Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using rates representative of market participants' perspectives. Among other things, this takes into consideration when the promise to give is expected to be collected, past collection experience, the Foundation's policy on enforcing promises to give, and creditworthiness of the donor. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

(i) Donations Granted

Donations granted by the Foundation are recognized as expenses in the period made and as decreases of assets or increases of liabilities, depending on the form of benefits given.

(j) Supplies

The inventory of supplies is valued at the lower of cost or market value, using a first-in first-out basis.

(k) Long-Term Investment and Restricted Funds

Long-term investment and restricted funds are invested in corporate debt securities, United States Treasury bonds and government agency debt issues. These investments are measured at fair value, which is determined based upon quoted market prices. These investments are exposed to various risks such as interest rate, market and credit risks. Investments set aside for future capital improvements, pension costs or for funding insurance are considered to be Board designated funds. These and other investments, whose use has been limited by financial arrangements, are classified as long- or short-term investment funds. Investments whose use by the District has been limited by donors to a specific time period or purpose are classified as restricted funds.

(l) Capital Assets

Capital assets are recorded at cost. All assets with an original cost of $500 or more are considered capital assets. Depreciation is provided over the useful life of each class of depreciable assets and is computed using the straight-line method. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred.

Depreciable lives by property classification are as follows:

Land improvements	2-25 years
Buildings	10-40 years
Equipment	3-20 years

Interest income and cost incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of acquiring those assets.

(m) Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits; and medical malpractice. The District utilizes both commercial insurance and self-insurance for claims arising from such matters. The District is self-insured for workers' compensation claims, health benefits, vision and dental benefits.

(n) Self-Insurance Plans

The District is self-insured for workers' compensation benefits for employees. An actuarial estimate of future claims payments is accrued as a long-term liability. This estimate is based on the expected, undiscounted payments. Assets have been set aside for future payments of workers' compensation benefits, related expense, and the cost of administering the plan. These assets are classified as long-term investment funds in the accompanying financial statements.

The District is a member of and participates in a group professional liability self-insurance program through BETA Healthcare Group (BETA), a joint powers authority whose members are district hospitals and county facilities in California. Amounts paid by each member to BETA represent actuarially determined assessments of claims payable, and estimated incurred but not reported claims that are adjusted periodically based on the claims experience for each member at each hospital. Claims in excess of specified amounts are the responsibility of individual program participants. The District has coverage on an occurrence basis up to $40 million per year for professional and general liability through BETA.

The District provides eligible employees with health, vision and dental benefits through self-insured programs administered by Blue Shield, Vision Service Plan and Delta Dental. The liability for claims arising from these programs is estimated based upon historical experience and trending information.

(o) Net Assets

District

Net assets are required to be classified for accounting and reporting purposes in the following categories:

Unrestricted – Net assets that are neither restricted nor invested in capital assets, net of related debt. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors.

Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – The District classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

> Expendable – Net assets whose use by the District is subject to externally imposed restrictions that can be fulfilled by actions of the District pursuant to those restrictions or that expire by the passage of time.
>
> Nonexpendable – Net assets subject to externally imposed restrictions that they be retained in perpetuity by the District. There were no such assets as of June 30, 2010 and 2009.

Foundation

The net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Unrestricted net assets represent those resources of the Foundation that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Foundation and the purposes specified in its articles of incorporation or bylaws, and limits resulting from contractual agreements, if any.

Temporarily restricted – Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those stipulations or by the passage of time. For financial statement presentation, these are labeled as “Restricted – expendable” in the accompanying financial statements.

(p) Concentrations of Credit Risk

District

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of cash equivalents and patient accounts receivable.

The District invests its cash and cash equivalents in highly rated financial instruments including insured deposits and the Local Agency Investment Fund (LAIF). Other than LAIF funds, there is no significant concentration in one investment or group of similar investments.

The District's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the District's patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Reimbursements from the Medicare program accounted for approximately 20% and 23% of the District's net patient service revenues for the fiscal years ended June 30, 2010 and 2009, respectively. Medicare, Medi-Cal, Blue Cross and Blue Shield are the only payors that represent more than 10% of the District's net patient accounts receivable as of June 30, 2010. The District maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

Foundation

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash equivalents and pledged contributions receivable.

The Foundation invests its cash and cash equivalents in highly rated financial instruments including insured deposits. The District holds a portion of the Foundation assets in the District's LAIF account.

The Foundation maintains an allowance for uncollectible pledges based on the expected collectibility of pledges. The Foundation had 360 donor pledges, with the largest individual pledge representing approximately 20% of the total, as of June 30, 2010. The Foundation had 445 donor pledges, with the largest individual pledge representing approximately 12% of the total, as of June 30, 2009.

(q) Statements of Revenues, Expenses, and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions, which include investment income, changes in unrealized gains and losses, interest expense, rental income and property tax revenues, are reported as non-operating revenues and expenses.

(r) Net Patient Service Revenues

Net patient service revenues are 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. Reimbursement from third-party payors under various methodologies is based on the level of care provided. 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. Amounts received in 2010 and 2009 related to prior years, including adjustments to prior year estimates, increased net patient service revenues approximately $2,183,000 and $405,000, respectively.

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.

(s) Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenues. The District subsidizes the cost of treating patients who are on governmental assistance where reimbursement is below cost.

(t) Other Revenue

Other revenue includes revenue from cafeteria, laundry, dietary and certain DEVCO operations.

(u) Interest Income and Expense

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and are depreciated over the estimated useful life of the asset.

(v) Impairment of Long-Lived Assets

In accordance with GASB Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries,* the District is required to evaluate prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. Based on management's evaluation, there were no impairment losses in 2010 and 2009.

(w) Income Taxes

District

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. However, income from the unrelated business activities of the District may be subject to income taxes.

Foundation

The Foundation is a California nonprofit corporation; exempt from federal and state income tax as a 501c(3) organization.

(x) Property Tax Revenue

The District receives property taxes that are assessed by Alameda County for the service of the general obligation bond principal and interest payments. The District records these revenues as non-operating income.

(y) New Accounting Pronouncements

District

As of June 30, 2010, the District has adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also establishes guidance specific to intangible assets related to amortization and on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. The adoption of Statement No. 51 did not have a significant impact on the District's financial statements.

The requirements for GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* became effective in the current year. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope are reported at fair value. The District's investment policies are governed by State statutes that require the District to invest in highly rated and secure cash equivalents and government and corporate debt securities. The District does not purchase derivative instruments.

Foundation

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-08, *Technical Corrections to Various Topics*. This ASU, which was effective for reporting periods beginning after the date of issuance, corrected or clarified language contained in several reporting topics. The adoption of this ASU did not have a significant impact on the Foundation's financial statements.

Accounting Standards Update No. 2010-09, *Subsequent Events (Topic 855),* was issued in February 2010 and was immediately effective. This update clarifies the cut-off dates for which subsequent events need to be disclosed for different types of entities. Adoption of this ASU did not have an impact on the Foundation's financial statements.

(2) Patient Revenues

Patient revenues consist of the following:

		2010		2009
Gross patient revenues:				
Routine inpatient services	$	371,644,000	$	334,203,000
Ancillary inpatient services		1,006,950,000		900,972,000
Outpatient services		416,663,000		365,469,000
		1,795,257,000		1,600,644,000
Deductions from gross patient revenues:				
Contractual allowances for statutory and negotiated rates		1,320,127,000		1,174,262,000
Provision for doubtful accounts		42,435,000		33,828,000
Charity care		19,226,000		20,295,000
		1,381,788,000		1,228,385,000
Net patient service revenues	$	413,469,000	$	372,259,000

The District has agreements with third-party payors that provide for payments to the District at amounts that differ from established rates. 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 that is based on clinical, diagnostic, and other factors. The District also receives Medicare Disproportionate Share (DSH) reimbursements for services provided to a disproportionate percentage of low-income patients. The Medicare program pays hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the District is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory, are paid based upon prospectively determined fee schedules. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been audited for all fiscal years through June 30, 2006 and finalized by the Medicare fiscal intermediary for all fiscal years through June 30, 2005. Services provided to Medi-Cal program beneficiaries are reimbursed at negotiated per-diem rates.

The District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The methods for payment under these agreements include prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per diem rates. The District receives reimbursement from various payors under the State of California Division of Workers' Compensation program, based upon a pre-determined fee schedule.

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances, which represent differences between gross charges and the estimated receipts under such programs. 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. Receivables for patient care are also reduced for allowances for uncollectible accounts.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Account balances are written off against the allowance when management determines it is probable the receivable will not be recovered. The use of historical collection and payor reimbursement experience is an integral part of the estimation of reserves for uncollectible accounts. Revisions in reserve for uncollectible accounts estimates are recorded as an adjustment to the provision for bad debts, which includes charity care.

At the current time there is uncertainty about reimbursements from government programs. The Centers for Medicare and Medicaid Services has proposed reductions in rates, which would result in a decrease in Medicare reimbursements. The state budget, which is not finalized, contains proposed health care budget cuts which may affect reimbursements for non-contracted Medi-Cal services. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Under Assembly Bill 1383 of 2009, as amended by Assembly Bill 1653 on September 8, 2010 (collectively, the Bill), which establishes a hospital fee program, the District is exempt from the quality assurance fee, but is eligible for supplemental payments under the second part of the Bill. This Bill is currently pending CMS approval, the outcome of which cannot be determined.

The composition of gross patient revenues by major payor type is as follows:

	2010	2009
Medicare	$ 838,906,000	$ 712,932,000
Medi-Cal	180,582,000	190,099,000
PPO, HMO and others	670,961,000	633,079,000
Private pay and industrial indemnity	104,808,000	64,534,000
	$ 1,795,257,000	$ 1,600,644,000

(3) Charity Care

The District maintains records to identify and monitor the level of direct charity care it provides. For the years ended June 30, 2010 and 2009, net patient service revenues exclude charges forgone for charity care services and supplies of approximately $19,226,000 and $20,295,000, respectively.

(4) Contributions Receivable

Included in contributions receivable for the Foundation are the following unconditional promises to give:

		2010		2009
Critical Care Pavilion	$	487,000	$	930,000
Center for Joint Replacement		258,000		323,000
Other		50,000		4,000
Contributions receivable before unamortized discount and allowance for uncollectibles		795,000		1,257,000
Less: Allowance for uncollectibles		(35,000)		(58,000)
Less: Unamortized discount		(29,000)		(52,000)
Net contributions receivable	$	731,000	$	1,147,000
Amounts due in:				
Less than 1 year	$	50,000	$	4,000
1 to 3 years		745,000		1,253,000
Total	$	795,000	$	1,257,000

The value of contributions receivable represents the Foundation's expected future cash flows from each pledge. For each year ended June 30, 2010 and June 30, 2009, the Foundation used a discount rate of 6.0%.

(5) Temporarily Restricted Net Assets

District

The District's restricted net assets are expendable for the construction of a new emergency room/intensive care unit/critical care unit building.

Foundation

The Foundation's temporarily restricted net assets are available for the following programs:

	2010	2009
Critical Care Pavilion	$ 2,743,000	$ 2,671,000
Center for Joint Replacement	1,237,000	1,204,000
Magnet Status Grants	419,000	793,000
Health-related services	584,000	615,000
Emergency room and critical care	305,000	305,000
Other activities	426,000	285,000
Education and professional recognition	39,000	88,000
Surgical	79,000	78,000
Childbirth and family services	32,000	31,000
Pathways Hospice	3,000	2,000
Total	$ 5,867,000	$ 6,072,000

(6) Related-Party Transactions

The District held $3,700,000 and $4,244,000 as of June 30, 2010 and 2009, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated $921,000 and $526,000 to the District for the fiscal years ended June 30, 2010 and 2009, respectively.

(7) Long-Term Investment and Restricted Funds

District

As of June 30, 2010 and 2009, investment and restricted funds, at fair value, have been set aside as follows:

	2010	2009
Board designated funds:		
Funded depreciation	$ 208,785,000	$ 171,079,000
Pension funding	45,882,000	22,129,000
Workers' compensation fund	10,931,000	10,567,000
Funds held by trustee under bond indenture	96,130,000	69,983,000
Restricted funds	2,804,000	2,804,000
Total funds	364,532,000	276,562,000
Short-term investments – required for current liabilities	(13,996,000)	(10,577,000)
Total long-term investment and restricted funds	$ 350,536,000	$ 265,985,000

The District is permitted to hold only readily marketable securities. The District's investment policy permits the following investments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	15 years	100%	none
U.S. Agency Securities	15 years	100%	none
State of California or local agency obligations	15 years	100%	none
LAIF (State Pool Demand Deposits)	N/A	As permitted by law	$15,000,000
Corporate Bonds	10 years *	30%	none
Certificates of deposit	1 year	20%	none
Repurchase agreements	1 year	N/A	$4,000,000
Bankers acceptances	270 days	40%	none
Commercial Paper	180 days	30%	none
Mutual Funds	N/A	15%	none

* May be longer than 10 years for individual investments if average maturity of porfolio does not exceed 7 years.

As of June 30, 2010 the District had the following investments with maturities as follows:

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasuries	$ 95,335,000	$ 8,898,000	$ 36,979,000	$ 49,402,000	$ 56,000
U.S. Agencies	46,160,000	4,260,000	31,012,000	4,969,000	5,919,000
Corporate Bonds	80,555,000	4,110,000	68,342,000	2,121,000	5,982,000
LAIF (State Pool Demand Deposits)	46,453,000	46,453,000	-	-	-
Money Market and Mutual Funds	96,029,000	96,029,000	-	-	-
		-			
Total Investments	$ 364,532,000	$ 159,750,000	$ 136,333,000	$ 56,492,000	$ 11,957,000

As of June 30, 2009 the District had the following investments with maturities as follows:

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasuries	$ 55,711,000	$ 5,323,000	$ 20,910,000	$ 29,478,000	$ -
U.S. Agencies	49,212,000	6,849,000	34,651,000	7,326,000	386,000
Corporate Bonds	49,730,000	1,584,000	43,226,000	608,000	4,312,000
LAIF (State Pool Demand Deposits)	113,484,000	113,484,000	-	-	-
Money Market and Mutual Funds	8,425,000	8,425,000	-	-	-
Total Investments	$ 276,562,000	$ 135,665,000	$ 98,787,000	$ 37,412,000	$ 4,698,000

The State of California Local Agency Investment Fund includes funds designated for operations and Board designated purposes.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits investments made by each investment manager to have an average maturity of not more than seven years.

Credit Risk

The District's investment policies are governed by State statutes that require the District to invest in highly rated and secure cash equivalents, and government and corporate debt securities. The District's policy requires that investments in corporate notes be rated "A" or its equivalent or better by a nationally recognized rating service under the "prudent man rule" (Civil Code Sect. 2261 et seq.) as long as the investment is deemed prudent and the type of investment is allowable under current legislation of the State of California (Government Code Section 53600 et seq.). Should the rating fall below the required rating, the District's policies provide for a period under which corrective action is to be taken.

The District's investments at June 30, 2010 are rated as follows:

Investment Type		Fair Value	Ratings
U.S. Treasuries	$	95,335,000	Not rated
U.S. Agencies		46,160,000	Not rated
Corporate Bonds		80,555,000	See below
Local Agency Investment Fund		46,453,000	Not rated
Money Market and Mutual Funds		96,029,000	Not rated
	$	364,532,000	

Corporate Bonds Rating		Amount
AAA	$	18,495,000
AA+		4,979,000
AA		5,745,000
AA-		7,422,000
A+		8,261,000
A		25,982,000
A-		9,671,000
	$	80,555,000

Investment and restricted funds, including cash and cash equivalents, are invested in LAIF, U.S. Treasury obligations and U.S. Government Agency and corporate debt securities. Deposits are collateralized by the depository bank with pledged securities. Including the deposit insurance provided by the Federal Deposit Insurance Corporation, this collateralizing process equals or exceeds the District’s carrying value. Collateral is held by the depository bank’s trust department in the name of the District. No investment in any one issuer represents 5% or more of the District's total investments other than U.S. Treasury and Federal National Mortgage Association obligations.

All of the District's investments, including assets held by trustees, are Category 1 investments, which are defined by GASB Statement No. 31 as investments that are insured or registered and are held by the institution, or its agent, in the institution's name.

Foundation

Investments as of June 30, 2010 and 2009, at fair value are summarized below:

		2010		2009
Money market and certificates of deposit	$	519,000	$	519,000
Equity mutual fund		439,000		378,000
		958,000		897,000
Local agency investment funds held by District on behalf of Foundation		3,700,000		4,244,000
	$	4,658,000	$	5,141,000

The Foundation measures and records its investments at fair value in accordance with accounting standards which establish a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. The Foundation's investments were considered Level 1, and as such, fair value was based on quoted prices in active markets for identical assets. The Foundation did not adjust the quoted price for such assets.

(8) Capital Assets

Capital assets activity for the year ended June 30, 2010 consisted of the following:

	Beginning balance, June 30, 2009	Increases	Decreases	Ending balance, June 30, 2010
Capital assets, not being depreciated:				
Land	$ 10,482,000	$ —	$ —	$ 10,482,000
Construction in progress	56,664,000	69,546,000	(7,597,000)	118,613,000
Total capital assets not being depreciated	67,146,000	69,546,000	(7,597,000)	129,095,000
Capital assets being depreciated:				
Land improvements	6,694,000	705,000	—	7,399,000
Buildings	173,661,000	1,008,000	—	174,669,000
Fixed and movable equipment	160,071,000	9,809,000	(4,000)	169,876,000
Total capital assets being depreciated	340,426,000	11,522,000	(4,000)	351,944,000
Less accumulated depreciation:				
Land improvements	(5,343,000)	(218,000)	—	(5,561,000)
Buildings	(85,192,000)	(7,062,000)	—	(92,254,000)
Fixed and movable equipment	(111,004,000)	(11,763,000)	4,000	(122,763,000)
Total accumulated depreciation	(201,539,000)	(19,043,000)	4,000	(220,578,000)
Total capital assets being depreciated, net	138,887,000	(7,521,000)	—	131,366,000
Total capital assets, net	$ 206,033,000	$ 62,025,000	$ (7,597,000)	$ 260,461,000

At June 30, 2010, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately $48,226,000.

Capital assets activity for the year ended June 30, 2009 consisted of the following:

	Beginning balance, June 30, 2008	Increases	Decreases	Ending balance, June 30, 2009
Capital assets, not being depreciated:				
Land	$ 10,482,000	$ —	$ —	$ 10,482,000
Construction in progress	30,483,000	31,091,000	(4,910,000)	56,664,000
Total capital assets not being depreciated	40,965,000	31,091,000	(4,910,000)	67,146,000
Capital assets being depreciated:				
Land improvements	6,323,000	371,000	—	6,694,000
Buildings	172,978,000	688,000	(5,000)	173,661,000
Fixed and movable equipment	152,394,000	7,913,000	(236,000)	160,071,000
Total capital assets being depreciated	331,695,000	8,972,000	(241,000)	340,426,000
Less accumulated depreciation:				
Land improvements	(5,074,000)	(269,000)	—	(5,343,000)
Buildings	(77,621,000)	(7,576,000)	5,000	(85,192,000)
Fixed and movable equipment	(99,926,000)	(11,314,000)	236,000	(111,004,000)
Total accumulated depreciation	(182,621,000)	(19,159,000)	241,000	(201,539,000)
Total capital assets being depreciated, net	149,074,000	(10,187,000)	—	138,887,000
Total capital assets, net	$ 190,039,000	$ 20,904,000	$ (4,910,000)	$ 206,033,000

The increase in accumulated depreciation includes both operating and non-operating depreciation as detailed below:

	2010	2009
Change in accumulated depreciation:		
Operating depreciation expense	$ 18,490,000	$ 18,562,000
Non-operating depreciation expense	553,000	597,000
Disposal of fixed assets	(4,000)	(241,000)
Total increase in accumulated depreciation	$ 19,039,000	$ 18,918,000

(9) Long-Term Debt

The District issued revenue bonds in 1999 for the purpose of providing funds to pay costs associated with the acquisition, construction and renovation of Hospital facilities. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of Union Bank of California (Trustee), as defined in the Series indentures.

The District issued general obligation bonds in December 2006 for the purpose of providing funds to pay costs related to the construction of a new Central Utility Plant and other major construction projects. The repayment of the general obligation bonds will be funded through property tax assessments to residents of the District.

The District issued revenue bonds in 2007 to provide funds for the construction of a new building that will house the Center for Joint Replacement and several smaller capital projects. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of Union Bank of California (Trustee), as defined in the Series indentures.

The District issued general obligation bonds in November 2009 for the purpose of providing funds to pay costs related to the construction of a new Central Utility Plant and other major construction projects. The repayment of the general obligation bonds will be funded through property tax assessments to residents of the District.

The District issued revenue bonds in December 2009 to provide funds for the construction of a new building that will house the Center for Joint Replacement and several smaller capital projects. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of Union Bank of California (Trustee), as defined in the Series indentures.

The District is also required to meet certain covenants, the most restrictive of which is related to debt service coverage. The District has agreed to maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. The District was in compliance with these covenants as of June 30, 2010 and 2009, maintaining debt service coverage ratios of 2.9 to 1.0 and 3.0 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

The carrying amount of the District's long-term debt approximates fair value as of June 30, 2010 and 2009.

A summary of revenue bond and general obligation bond activity for the year ended June 30, 2010 is as follows:

Bonds payable	Beginning balance, June 30, 2009	Additions	Amortization/ Other	Repayments	Ending balance, June 30, 2010	Due within one year
2009 Series Revenue Bonds, principal and interest (at 4.5%) payable semiannually	$ —	$ 55,000,000	$ —	$ —	$ 55,000,000	$ —
Less issuance discounts	—	(943,000)	15,000	—	(928,000)	—
Total 2009 Series Revenue Bonds payable	—	54,057,000	15,000	—	54,072,000	—
2009 General Obligation Bonds principal and interest (at 6.0%) payable semiannually	—	25,000,000	—	—	25,000,000	—
Plus issuance premiums	—	1,368,000	(279,000)	—	1,089,000	—
Total 2009 Series General Obligation Bonds payable	—	26,368,000	(279,000)	—	26,089,000	—
2007 Series Revenue Bonds, principal and interest (at 4.125%) payable semiannually	78,925,000	—	—	(780,000)	78,145,000	815,000
Less issuance discounts	(1,724,000)	—	167,000	—	(1,557,000)	—
Total 2007 Series Revenue Bonds payable	77,201,000	—	167,000	(780,000)	76,588,000	815,000
2006 General Obligation Bonds principal and interest (at 4.0%) payable semiannually	53,365,000	—	—	(6,675,000)	46,690,000	1,265,000
Plus issuance premiums	484,000	—	(85,000)	—	399,000	—
Total 2006 Series General Obligation Bonds payable	53,849,000	—	(85,000)	(6,675,000)	47,089,000	1,265,000
1999 Series Revenue Bonds, principal and interest (at 5.0%) payable semiannually	41,420,000	—	—	(1,155,000)	40,265,000	1,210,000
Less issuance discounts	(330,000)	—	27,000	—	(303,000)	—
Total 1999 Series Revenue Bonds payable	41,090,000	—	27,000	(1,155,000)	39,962,000	1,210,000
Total long-term debt payable	$ 172,140,000	$ 80,425,000	$ (155,000)	$ (8,610,000)	$ 243,800,000	$ 3,290,000

A summary of revenue bond, general obligation bond and other long-term debt activity for the year ended June 30, 2009 is as follows:

Bonds payable	Beginning balance, June 30, 2008	Additions	Amortization/ Other	Repayments	Ending balance, June 30, 2009	Due within one year
2007 Series Revenue Bonds, principal and interest (at 4.0%) payable semiannually	$ 79,645,000	$ —	$ —	$ (720,000)	$ 78,925,000	$ 780,000
Less issuance discounts	(1,923,000)	—	199,000	—	(1,724,000)	—
Total 2007 Series Revenue Bonds payable	77,722,000	—	199,000	(720,000)	77,201,000	780,000
2006 Genaral Obligation Bonds principal and interest (at 4.0%) payable semiannually	59,350,000	—	—	(5,985,000)	53,365,000	6,675,000
Plus issuance premiums	636,000	—	(152,000)	—	484,000	—
Total 2006 Series General Obligation Bonds payable	59,986,000	—	(152,000)	(5,985,000)	53,849,000	6,675,000
1999 Series Revenue Bonds, principal and interest (at 4.6%) payable semiannually	42,525,000	—	—	(1,105,000)	41,420,000	1,155,000
Less issuance discounts	(357,000)	—	27,000	—	(330,000)	—
Total 1999 Series Revenue Bonds payable	42,168,000	—	27,000	(1,105,000)	41,090,000	1,155,000
Total bonds payable	179,876,000	—	74,000	(7,810,000)	172,140,000	8,610,000
Other notes payable	1,000,000	—		(1,000,000)	—	—
Total long-term debt payable	$ 180,876,000	$ —	$ 74,000	$ (8,810,000)	$ 172,140,000	$ 8,610,000

A summary of the revenue bonds and general obligation bonds issuance information is as follows:

Bond Issue	Original Issue	Maturity Date	2010 Effective Interest Rate
2009 General Obligation Bonds	$ 25,000,000	8/1/2039	5.7%
2009 Series Revenue Bonds	$ 55,000,000	7/1/2039	6.0%
2007 Series Revenue Bonds	$ 79,645,000	7/1/2037	5.1%
2006 General Obligation Bonds	$ 60,000,000	8/1/2036	4.6%
1999 Series Revenue Bonds	$ 49,725,000	7/1/2029	5.2%

The long-term debt amortization requirements as of June 30, 2010, excluding amortization of discounts and premiums on bonds payable, are as follows:

	Total long-term debt	
	Principal	**Interest**
June 30:		
2011	$ 3,290,000	$ 12,697,000
2012	8,090,000	12,420,000
2013	8,370,000	12,005,000
2014	8,785,000	11,580,000
2015	8,710,000	11,122,000
2016 - 2020	25,505,000	51,386,000
2021 - 2025	32,680,000	44,013,000
2026 - 2030	42,030,000	34,419,000
2031 - 2035	54,140,000	21,988,000
2036 - 2040	53,500,000	6,593,000
	$ 245,100,000	$ 218,223,000

Components of interest expense include the following:

	2010	**2009**
Total interest cost	$ 10,873,000	$ 8,588,000
Capitalized interest expense	(7,826,000)	(4,834,000)
Net interest expense	$ 3,047,000	$ 3,754,000
Capitalized investment income	$ 255,000	$ 2,081,000

(10) Employee Benefit Plans

(a) Defined Benefit Retirement Plan

The District maintains a defined benefit retirement plan that covers all employees who meet certain eligibility requirements. The plan, as approved by the Board of Directors of the District, is a single employer plan solely funded by the District. Benefits under the plan are calculated based on the participant's length of service, age at retirement, and average compensation as defined by the plan. Employees are fully vested in the plan after 5 years of service and are eligible to receive an unreduced benefit once they reach age 65. An employee who attains age 62 and has completed 20 years of service, or an employee who attains age 60 with 30 years of service is also eligible for an unreduced benefit.

The District recognizes pension expense based upon GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The District's funding policy is to contribute based on actuarial estimates, subject to statutory limitations. The District's Board is the plan sponsor and has the sole authority to amend the plan. The Board expects to continue contributions to the plan, but it can suspend or reduce contributions at any time upon appropriate action by amendment to the plan. The pension plan does not issue a stand-alone financial report.

The District's annual pension cost, which is a measure of the periodic cost of the District's participation in the defined benefit retirement plan, and net pension asset, which is the amount recognized by the District for contributions greater than pension expense, to the defined benefit retirement plan were as follows:

	2010	2009
Annual required contribution	$ 12,594,000	$ 10,004,000
Interest on net pension asset	(1,060,000)	(1,180,000)
Adjustment to annual required contribution	1,142,000	1,271,000
Annual pension cost	12,676,000	10,095,000
Contributions made	-	8,500,000
Decrease to net pension asset	(12,676,000)	(1,595,000)
Net pension prepaid balance, beginning of period	14,144,000	15,739,000
Net pension prepaid balance, end of period	$ 1,468,000	$ 14,144,000

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation/(Asset)
2008	$ 9,498,000	100.02%	$ (15,739,000)
2009	10,095,000	84.20%	(14,144,000)
2010	12,676,000	0.00%	(1,468,000)

For the fiscal year ended June 30, 2010 the District Board has designated $22,000,000 for contribution to the plan. Had the District made this contribution, 173.6% of the annual pension cost would have been funded.

Components of pension activity for the years ended June 30 consist of the following:

	2010	2009
Pension expense	$ 12,676,000	$ 10,095,000
Employer contributions	-	8,500,000
Benefits paid	5,579,000	5,080,000

The following table summarizes the funding status of the defined benefit retirement plan:

	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – projected unit credit (b)	Assets in excess/ (shortfall) 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)
Fiscal year:						
2008	$ 101,574,000	$ 147,112,000	$ (45,538,000)	69.0%	$ 100,581,000	(45.3)%
2009	111,467,000	161,714,000	(50,247,000)	68.9%	104,827,000	(47.9)%
2010	106,519,000	179,398,000	(72,879,000)	59.4%	121,053,000	(60.2)%

For the fiscal year ended June 30, 2010 the District Board has set aside $22,000,000 for the plan but has not made the contribution pending a review of the plan's asset allocation. This amount is in addition to the $22,129,000 set aside for the fiscal year ended June 30, 2009. This additional funding has not been reflected in the actuarial estimates of the pension plan's funding, liabilities or costs. If these amounts were funded to the plan at June 30, 2010, the market value and actuarial value of plan assets would be increased by $44,500,000 and $45,359,000, respectively. The funded ratio for the plan would be 85% at June 30, 2010.

The following table summarizes the actuarial assumptions used to determine defined benefit retirement plan liabilities as of June 30, 2010:

Valuation Date	July 1, 2010
Measurement Date	January 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortizing Method	15 year open
Remaining Amortization Period	15 year open
Asset Valuation Method	3-year deferrals of gains and losses
Actuarial Assumptions	
Investment Rate of Return	7.50%
Projected Salary Increases	5.00%
Cost-of-living Adjustments	3.00%

The District has a deferred compensation plan available to employees. Generally, any employee is eligible and voluntarily enters into an agreement with the District to defer current wages at amounts limited by federal law. Effective July 1, 2005 the District matched participant contributions to a maximum of 1.25% of gross earnings. Under these agreements, the District purchases annuity contracts for various investments. All investment earnings, including market value appreciation and depreciation, are set aside in trusts for the benefit of the participants. For the 2009 and 2008 calendar years, for which the contributions were made during the 2010 and 2009 fiscal years, the District's matching contribution totaled $1,368,000 and $1,302,000, respectively.

(b) Defined Benefit Post-Retirement Medical Plan (OPEB)

The District provides a defined benefit post-retirement medical plan that covers both salaried and non-salaried employees, as approved by the Board of Directors of the District. Eligible individuals are those employees who have benefited status and concurrently elect retirement and the receipt of pension plan benefits after they reach age 55 and five years of service. The benefit allows for the payment to the retiree of the cost of Medicare Part B insurance premiums. In addition, employees retiring on or after age 55 with 20 years of service are eligible for a stipulated amount per month in reimbursements for medical expenses to age 65. A prescription drug benefit provides $450 per year for 10 years beginning at the later of age 65 or retirement. Eligibility for this benefit is retirement at age 55 with 25 years of benefited service.

OPEB benefits are funded entirely by the District on a pay-as-you-go basis. For the fiscal years ended June 30, 2010 and 2009, the District contributed $686,000 and $598,000, respectively, to fund benefits paid in those years.

The District's annual other post-employment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* 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 District's annual OPEB cost, the amount actually contributed to the plan, and the changes in the District's OPEB obligation.

	2010	2009
Annual required contribution	$ 3,778,000	$ 3,410,000
Interest on net OPEB obligation	1,099,000	1,013,000
Adjustment to annual required contribution	(2,191,000)	(2,020,000)
Annual OPEB cost	2,686,000	2,403,000
Contributions made	686,000	598,000
Increase in net OPEB Obligation	2,000,000	1,805,000
Net OPEB obligation - beginning of year	23,133,000	21,328,000
Net OPEB obligation - end of year	$ 25,133,000	$ 23,133,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 2,443,000	23.41%	$ 21,328,000
2009	2,403,000	24.90%	23,133,000
2010	2,686,000	25.54%	25,133,000

As of June 30, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $27.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of $27.7 million. The covered payroll (annual payroll of active employees covered by the plan) was $121.1 million, and the ratio of the UAAL to the covered payroll was 22.9%.

In the June 30, 2010 and June 30, 2009 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions include an initial annual healthcare cost trend rate of 8% and 9%, respectively, reduced by decrements to an ultimate rate of 5% by the year 2013. For each of the years, a discount rate of 4.75% was assumed in the calculation and the UAAL is being amortized as a level percentage over 15 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 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.

(11) Insurance Plans

The District is self-insured for its hospital professional, general and directors and officers liability insurance up to certain retention levels. The District's hospital professional, general, and directors and officers excess liability insurance is purchased from BETA Health Care Group (BETA). BETA was formed in 1979 for the purpose of operating a self-insurance program for the excess insurance coverage for certain hospital districts of the Association of California Hospital Districts (ACHD). Effective October 1, 1989, BETA became a separate joint powers authority, establishing itself as a public agency and distinct from ACHD. BETA is managed by a board of 15 elected representatives (the BETA council). The BETA council and its six committees meet quarterly to vote on all matters affecting the program. A representative from the District occupies one seat on the BETA Council.

The District is self-funded for its workers' compensation and has been issued a Certificate of Consent to Self-Insure by the State of California, Department of Industrial Relations. The District purchases excess workers' compensation insurance coverage.

Selected coverages are:

Coverage		Policy limit		Self-insured retention per occurrence
All risk property	$	1,000,000,000	$	40,000
Hospital professional and general liability		40,000,000		25,000
Excess workers' compensation		Statutory		1,000,000
Directors and officers		10,000,000		25,000
Commercial crime		10,000,000		2,500
Automobile insurance		10,000,000		500

Settled claims have not exceeded the District's policy limits in any year.

The District has an actuarial estimate performed annually on its self-insured workers' compensation plans. Estimated liabilities have been actuarially determined and include an estimate of incurred, but not reported, (IBNR) claims. The District estimates professional and general liabilities and health, vision and dental benefit liabilities based upon historical experience and trending information.

For the years ended June 30, 2010 and 2009, an actuarial estimate was prepared for the self-funded health, dental and vision IBNR claims liability.

(12) Compensated Absences

District employees earn paid leave at varying rates depending on length of service and job classification. Employees can accumulate up to 640 hours of paid leave. All accumulated unused leave in excess of the maximum accrual amount is paid at the employee's anniversary date. Upon separation, unused leave balances are paid in full. As of June 30, 2010 and 2009, the liability for unpaid compensated absences was $12,856,000 and $11,351,000, respectively.

(13) Commitments and Contingencies

(a) Lease Commitments

DEVCO has operating leases for medical clinics. Rental expense under these leases for fiscal years ended June 30, 2010 and 2009 was $3,699,000 and $2,976,000, respectively. DEVCO sub-leased a portion of these spaces and generated revenue of $2,143,000 and $1,659,000 for 2010 and 2009, respectively.

Future minimum rental commitments for years subsequent to June 30, 2010 are as follows:

2011	$	3,195,000
2012		2,746,000
2013		2,287,000
2014		1,857,000
2015		1,495,000
Thereafter		1,116,000
	$	12,696,000

(b) Litigation

The District is involved in various claims and litigation, as both plaintiff and defendant, arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect on the District's financial position.

(c) Regulatory Environment

The health care 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, and government health care 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 health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. While no regulatory inquiries have been made, 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.

Supplemental Pension and Post-Employment Benefit Information

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Supplemental Pension and Post-Employment Benefit Information

Defined Benefit Retirement Plan

The following table summarizes the number of total plan participants:

	2010	2009
Participating employees	1,308	1,246
Deferred vested participants	600	591
Retirees and beneficiaries	489	470
Total plan participants	2,397	2,307

The following table summarizes the prepaid pension cost for the defined benefit retirement plan:

	Beginning of year prepaid pension cost (a)	Annual pension cost (b)	Actual contribution (c)	Change in prepaid pension cost (c-b)	End of year prepaid pension cost ((a)+c-b))
Fiscal year:					
2008	$ 15,737,000	$ 9,498,000	$ 9,500,000	$ 2,000	$ 15,739,000
2009	15,739,000	10,095,000	8,500,000	(1,595,000)	14,144,000
2010	14,144,000	12,676,000	-	(12,676,000)	1,468,000

Defined Benefit Post-Retirement Medical Plan

The following table summarizes the number of total plan participants:

	2010	2009
Active employees	1,263	1,202
Retirees receiving pre-65 $440 reimbursement	1	2
Retirees receiving pre-65 $440 COBRA benefits	24	18
Retirees receiving Part-B subsidy	259	253
Retirees eligible for Part-B subsidy only	11	9
Retirees receiving Part-D subsidy only	2	1
Total plan participants	1,560	1,485
Retirees also receiving Part-D subsidy benefit	41	21
Retirees also eligible for Part-D	21	12

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Supplemental Pension and Post-Employment Benefit Information

The following table summarizes the funding status of the defined benefit post-retirement medical plan:

Valuation Date	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) AAL as a percentage of covered payroll ((a – b)/c)
7/1/2008	$ —	$ 25,207,000	$ (25,207,000)	0.0%	$ 104,827,000	(24.0)%
7/1/2009	—	27,744,000	(27,744,000)	0.0%	121,053,000	(22.9)%
7/1/2010	—	30,852,000	(30,852,000)	0.0%	131,700,000	(23.4)%

The following table summarizes the contributions to the defined benefit post-retirement medical plan:

Fiscal Year	Annual Required Contribution	Actual Contribution	Percentage Contributed
7/1/2007 - 6/30/2008	$ 3,362,000	$ 572,000	17.02%
7/1/2008 - 6/30/2009	3,410,000	598,000	17.54%
7/1/2009 - 6/30/2010	3,778,000	686,000	18.16%

The following table summarizes the calculation of the net benefit obligation for the defined benefit post-retirement medical plan:

Fiscal year	Beginning of year Net Benefit Obligation (a)	Recomended Contribution (b)	Actual Contribution (c)	Annual OPEB Cost (d)	Increase in Net Benefit Obligation (d-c)	End of year Net Benefit Obligation ((a)+(d-c))
7/1/2007 - 6/30/2008	$ 19,457,000	$ 3,362,000	$ 572,000	$ 2,443,000	$ 1,871,000	$ 21,328,000
7/1/2008 - 6/30/2009	21,328,000	3,410,000	598,000	2,403,000	1,805,000	23,133,000
7/1/2009 - 6/30/2010	23,133,000	3,778,000	686,000	2,686,000	2,000,000	25,133,000

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Supplemental Pension and Post-Employment Benefit Information

The following table summarizes the actuarial assumptions used to determine the defined benefit post-retirement medical plan liabilities as of June 30, 2010:

Valuation Date	July 1, 2010
Measurement Date	June 30, 2010
Actuarial Cost Method	Projected Unit Credit
Amortizing Method	15 year open
Remaining Amortization Period	15 year open
Asset Valuation Method	Market Value
Actuarial Assumptions	
Discount rate	4.75%
Current trend rate	8.00%
Ultimate trend	5.00%
Year of ultimate trend rate	2013