EL CAMINO HOSPITAL DISTRICT

INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL INFORMATION

JUNE 30, 2010 AND 2009

CONTENTS

MANAGEMENT DISCUSSION AND ANALYSIS

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

ECSC was a 50/50% partnership between the Hospital and a group of physicians, then became wholly owned by the Hospital in September 2005, subsequently in February 2007 the Hospital Board approved sale of no more than 49% of the total ownership interests in ECSC to qualified physicians at prices equal to fair market value. Two offerings have been done, one in fiscal year 2008 and the second in the spring of fiscal year 2009 that completed the sale of physician ownership to the maximum of 49%.

SVMD was formed in September 2008 as a Limited Liability Corporation ("LLC") a wholly owned subsidiary of the Hospital focused on the expansion of the clinical enterprise outside of the Hospital through various business ventures and physician alignment initiatives that improve access for the Hospital's current patients and new, underserved members of the community, extend healthcare into people's home through the applications of electronic connectivity and assist independent physicians in clinical integration with the Hospital, among other initiatives. It was initially funded by the Hospital in 2009 by $1.3 million in cash.

El Camino Hospital acquired the real estate and certain other assets of the 143 bed Community Hospital of Los Gatos ("CHLG") from one or more affiliates of HCP, Inc. This purchase occurred on April 11, 2009 with the Hospital paying $53.7 million in cash for the land, buildings, and equipment. Tenet ceased operations of CHLG on April 11th and subsequently terminated all of its employees at this site. El Camino Hospital set upon a plan to reactivate the Los Gatos hospital within 90 days, by rehiring a significant number of the former employees, making facilities enhancements, replacing certain medical equipment, and extending numerous clinical software applications at the Mountain View site to the Los Gatos site. The Los Gatos "sister hospital" reopened within 90 days on July 12, 2009 and is now known as "El Camino Hospital Los Gatos." The Los Gatos facility operates under the tax identification number, state healthcare license number, and various provider numbers of El Camino Hospital.

Overview of the Consolidated Financial Statements

This annual report consists of the consolidated financial statements and notes to those statements. These statements are organized to present the District as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Consolidated Financial Highlights

Year Ended June 30, 2010

- The increase in net assets for 2010 was $36.7 million over fiscal year 2009. Net operating income contributed $3.8 million to the increase, with non-operating incomes contributing $32.9 million, primarily in significant unrealized gains on the investments recorded at year end and property tax revenues received during the fiscal year.

- The first year of the "start-up" operations at the Los Gatos campus produced an operating contribution above their direct costs of $1.7 million in 2010. Currently, indirect costs are not allocated between the campuses.

- The decrease in operating income between 2009 and 2010 was $43.7 million, of which $24 million of the reduction was budgeted due to increased costs of the new facilities, and the remainder was due to unanticipated lower volume and a price decrease.

- Total assets decreased $13.8 million over fiscal year 2009. Total surplus cash and investments decreased by $68.9 million over fiscal year 2009, which is principally by the expenditures in the completion of construction of the new Hospital Replacement Project and reduction of current liabilities from the prior year, as discussed below.

- Current liabilities decreased by $32.4 million over fiscal year 2009. Primarily this decrease was due to a significant decrease in the general contractor year end payment due at June 2009 and construction retentions over the previous year, as only a minimum retention was outstanding at June 30, 2010 in regards to the Hospital Replacement Project. There was a decrease in third party payer reserves as significant settlement occurred at year end with a settlement paid to the Hospital in the amount of $9.2 million in cash and a corresponding pending liability due the payer for $6.0 million was settled as not due the payer and reversed, thus bringing both into current year income. Another significant decrease was in the actuarially determined reserves for workers' compensation due to the work injury programs instituted by Employee Health Services over the past years that has reduced occurrences and the cost of those claims, resulting in a $6.6 million decrease in workers' compensation expense in the current year.

Year Ended June 30, 2009

- Total assets increased $150.2 million over fiscal year 2008. Total surplus cash and investments decreased by $35.9 million over fiscal year 2008, which is principally comprised of increased operating cash flows and nonoperating income and expenses less the purchase of land, buildings and equipment at the Los Gatos Site and construction costs for the completion of the Hospital Replacement Project.

- Current liabilities increased by $23.9 million over the prior fiscal year 2008. Primarily this increase was in the areas of accrued payroll and accrued Paid Time Off ("PTO"), 403B employer match, and actuarially determined workers' compensation reserves. Other significant increases include liabilities for construction contractor payments and associated retentions and reserves for third-party settlements.

- The increase in net assets for 2009 was $55.9 million over fiscal year 2008. Net operating income contributed $47.5 million of this increase, with non-operating incomes, net of unrealized gains on investments, and including property tax revenues contributed $8.4 million.

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

(In Thousands)

	2010	2009	2008
Assets:			
Current assets	$ 230,411	$ 296,348	$ 274,681
Board designated & restricted funds, net of current portion	148,933	180,586	221,583
Funds held by trustee, net of current portion	11,484	21,060	71,264
Capital assets, net	726,655	652,694	424,404
Other assets	80,644	61,194	69,735
Total assets	**$ 1,198,127**	**$ 1,211,882**	**$ 1,061,667**
Liabilities:			
Current liabilities	$ 84,410	$ 116,827	$ 92,891
Bonds payable, net of current portion	335,337	340,020	294,011
Other long-term liabilities	56,302	69,628	45,260
Total liabilities	**$ 476,049**	**$ 526,475**	**$ 432,162**
Net assets:			
Unrestricted & invested in capital assets, net	$ 716,776	$ 677,241	$ 548,195
Retained earnings reserved for minority interest	2,185	1,542	932
Restricted	3,117	6,624	80,378
Total net assets	**$ 722,078**	**$ 685,407**	**$ 629,505**
Total liabilities and net assets	**$ 1,198,127**	**$ 1,211,882**	**$ 1,061,667**
Operating cash equivalents & short-term investments	$ 136,435	$ 205,315	$ 189,404
Board designated & restricted funds	148,882	191,211	231,000
Total available cash & investments	**$ 285,317**	**$ 396,526**	**$ 420,404**

The combined District maintains sufficient cash balances to pay all short-term liabilities. Excess cash is transferred to the District's trustee (Bank of New York) as surplus cash and is subsequently invested, according to investment policy guidelines, by one of the District's current money manager Barrow, Hanley, Mewhinney & Strauss, Inc.

Capital Assets

In 1994, the California legislature enacted Senate Bill 1953, which requires that California hospitals evaluate and upgrade acute care facilities by 2008 in order to meet the requirements of the Hospital Seismic Safety Act. As amended by subsequent legislation, the statute allows hospitals to apply for extensions beyond the 2008 deadline under certain circumstances. During 2007 the Hospital received its requested extension to January 2013 to ensure compliance with the Seismic Safety Act.

The Hospital developed a Facilities Master Plan (the "Plan"), which determined the location of the replacement building to be constructed over the next several years. On April 5, 2006, the Hospital Board of Directors approved Resolution 2006-5 approving a "Hospital Replacement Project" in the amount of $480,000,000 for five (5) construction phases and the related furniture, fixtures, and equipment, soft costs and contingencies that are required to successfully complete the Hospital Replacement Project (including all previously approved expenditures for the Hospital Replacement Project). On June 8, 2006, the ground breaking occurred signaling the start of the new Hospital Replacement Project. The North Addition that is connected to the original building, constructed in 1973, requires substantial interior renovations, but will continue to be utilized as part of the Plan. The Orchard and Willow Pavilions are compliant with State of California seismic requirements and will remain in service.

The District's plan to finance the Hospital Replacement Project includes using proceeds from a combination of: (1) General Obligation bonds, totaling $148 million, that were issued by the County of Santa Clara as approved by the November 4, 2003 Measure D; (2) $150 million in revenue bonds issued by the Hospital in 2007; (3) an additional $50 million revenue bond issued in 2009, and (4) cash reserves.

During the prior 2009 fiscal year, it was decided that the ground floor and first floor of the old Main Tower would remain in operations, but the second through sixth floors would be taken entirely out of service and "moth-balled." Thus the accelerated depreciation that was occurring on the entire old Main Tower to be completed by July 2010 was reset to allow the floors being kept operational to have an extended life to June 2013 and the floors being taken out of operations in November 2009, when the new hospital facility was set to open, were set to be fully depreciated by November 2009.

In the month of October 2009 the new five story, 450,000 square feet, state-of-the-art hospital facility was substantially completed, passed all state safety and operational inspections and on November 15, 2009 was open to all patient activity. Patients that were in the old Main Tower were transferred into the new facility and the emergency department started to accept patients in their new location. The following day surgeries were scheduled and full operations were in place.

Thus in fiscal year 2010 capital assets increased to $726.7 million from $652.7 million in fiscal year 2009 for a $74 million increase over the prior year. The net increase between land, construction-in-progress and fixed assets were $98.8 million over 2009, which was primarily due the completion of the Hospital Replacement Project at Mountain View and additional new equipment and furnishings to complete the new hospital. In May 2010, the hospital opened a new building adjacent to the hospital that houses a CyberKnife. This is a stereotactic system that uses robotics in conjunction with image guidance technology to precisely deliver radiation to tumors, while minimizing the dose to surrounding healthy tissue and critical body structures. Within this new building, the newest in technology in Linear Accelerator radiation oncology systems was installed.

Revenues and Expenses

The following table displays revenues and expenses for 2010, 2009 and 2008:

Revenues & Expenses
Years ended June 30, 2010, 2009 and 2008

(In Thousands)

	2010	2009	2008
Operating revenues:			
Net patient service revenue	$ 532,918	$ 464,787	$ 417,154
Other revenue	21,875	19,314	19,436
Total operating revenues	**$ 554,793**	**$ 484,101**	**$ 436,590**
Operating expenses:			
Salaries, wages & benefits	$ 306,570	$ 250,868	$ 215,957
Professional fees and purchased services	88,196	71,831	57,230
Supplies	83,583	63,438	56,785
Depreciation and amortization	42,799	29,330	29,343
Rent and utilities	13,616	11,121	10,443
Interest	6,449	244	298
Other	9,778	9,774	8,349
Total operating expenses	**$ 550,991**	**$ 436,606**	**$ 378,405**
Operating income	**$ 3,802**	**$ 47,495**	**$ 58,185**
Nonoperating income (loss) items:			
Investment income, net	25,861	8,961	16,318
Property tax revenues	15,608	15,900	14,792
Restricted gifts, grants & other	880	(38)	(92)
Unrealized losses on interest rate swaps	(1,005)	(8,258)	(5,050)
Other, net	(7,832)	(7,658)	(2,006)
Minority interest in subsidiary earnings	(643)	(500)	(1,000)
Total nonoperating revenues and expenses	**$ 32,869**	**$ 8,407**	**$ 22,962**
Increase in net assets	**$ 36,671**	**$ 55,902**	**$ 81,147**
Total net assets, beginning of year	**$ 685,407**	**$ 629,505**	**$ 548,358**
Total net assets, end of year	**$ 722,078**	**$ 685,407**	**$ 629,505**

Fiscal Year 2010 Consolidated Financial Analysis

Patient Services Revenues

Gross revenues increased by 8.63% or $166 million over fiscal year 2009. The Hospital opened the Los Gatos site and this contributed $306 million additional gross revenue. The Hospital did not implement a price increase during the year. This Hospital experienced a 4.9% decrease in total patient days primarily in closure of the sub-acute and transition care unit. Overall outpatient volumes increased by 10.5% mainly due to the Los Gatos site.

Inpatient Business Activity

Specialty	2010 Days	2009 Days	% Change
Medical/Surgical	56,893	50,458	12.8%
Maternity	11,342	11,005	3.1%
Pediatrics	138	151	-8.6%
NICU	4,531	4,820	-6.0%
Psychiatry	7,035	5,917	18.9%
Subacute	-	2,802	-100.0%
Normal newborn	10,734	10,323	4.0%
Total	**90,673**	**85,476**	**6.1%**

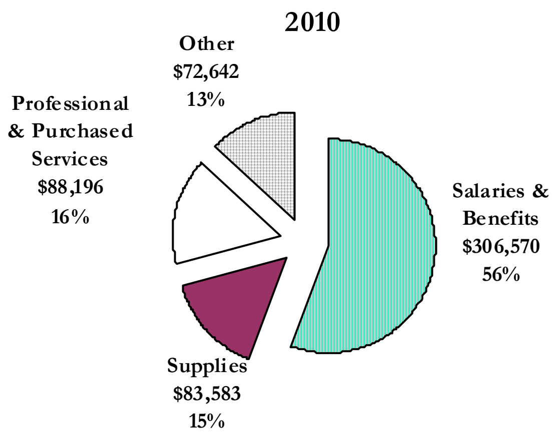
Specialty	2010 LOS	2009 LOS	% Change
Medical/Surgical	4.6	4.6	0.0%
Maternity	2.5	2.5	0.0%
Pediatrics	1.5	1.5	0.0%
NICU	8.9	10.4	-14.4%
Psychiatry	7.6	7.6	0.0%
Subacute	0.0	365	-100.0%
Normal newborn	2.6	2.6	0.0%
Total	**4.1**	**4.2**	**-2.4%**

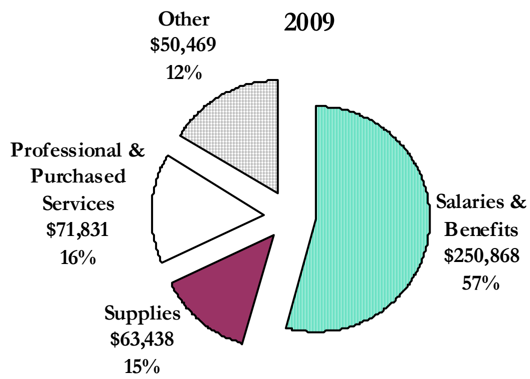
The overall case mix index, which is an indicator of patient acuity, was 1.12 in fiscal year 2010 compared to 1.07 in fiscal year 2009.

Deductions from Revenue

Contractual allowance adjustments, (expressed as a percentage of gross patient revenues) were 73% for 2010 compared to 74% for 2009. There was a slight decrease in contractual allowance adjustments largely due to revenue recoveries associated with contract underpayments from previous years and the considerable decrease in Net A/R days. In addition, contractual allowance adjustments were reduced in 2010 by favorable settlements of prior years' Medicare cost reports.

Operating Expenses





Los Gatos

As previously discussed in the opening paragraphs of this Management Discussion and Analysis, the Los Gatos campus of El Camino Hospital opened to patients on July 12, 2009. Prior to this time, from the acquisition date of April 11, 2009 through the end of fiscal year 2009, the facility was "fitting up" for the July 12th opening. There began the hiring of a significant number of employees, some of which were former employees of CHLG, stocking supplies, and acquiring new IT and medical equipment. Also an "Activation Consulting Team" was retained to assist management to make their achieved 90 day re-opening date of July 12, 2009. With full operations of the Los Gatos facility for almost the entire year, the total operations expense increased by $74.5 million over the "fit-up" expense in fiscal year 2009 of $5.4 million.

Salaries & Wages

Salaries and wages (including benefits) in fiscal year 2010 were 56% of operating expenses compared to 57% in fiscal year 2009. Total salaries and wages increased by $55.7 million in 2010 of which $34 million was due to the first full year of operations at the Los Gatos campus. At the Hospitals, $5.3 million was for salary increases over 2009 for registered nurses. At the Mountain View campus the work force increased by 90 FTE's (Full Time Equivalents) in fiscal year 2010 over 2009 contributing to increased salary and wage expense.

The Hospital continues its strategies for retention of the seasoned workforce. El Camino Hospital's nursing division was recertified in 2010 by the American Nurses Association Credentialing Center's prestigious Magnet Designation. El Camino Hospital has been one of only three hospitals in Northern California to hold this prestigious award and only 5% of the hospitals nationwide have this designation. This Magnet Designation has a very positive effect on recruitment and retention because of the high quality of nursing care this award represents. During 2010, the Hospital's nurse vacancy rate was 1.7% compared to 2.7% for hospitals in Northern California.

Professional Resources of Nurses ("PRN") completed the second year of its across-the-board increase of 5.25% enacted in late March 2009.

The Hospital's Stationary Engineers – Local 39, per their contract were provided a 5% increase on November 15, 2009.

Employees represented by the SEIU/United Healthcare Worked entered into their third year of a four year contract with a 3% increase effective July 12, 2009 and a second increase on January 10, 2010 of a 2% increase.

The non-contractual, non management employees received an across-the-board increase of 4% effective the beginning of the fiscal year.

Managers and Directors received a 4% increase on August 9, 2009. Certain senior management salaries were adjusted based on national benchmark data provided by an outside consultant, which was reviewed by the Compensation Committee of the Board, and subsequently approved by the full Board of Directors. These salary adjustments became effective on August 9, 2009.

Employees of the El Camino Surgery Center received an average of 5% increase on September 7, 2009.

Employee Benefits

Overall, employee benefits increased by a modest net of $4.0 million in 2010 compared to 2009 of which the full year of operations of the Los Gatos campus added an increase of $6.7 million.

Significant increases outside of the addition of the Los Gatos campus and decreases are:

- Workers Compensation decreased a significant $7.1 million over 2009. Most of the decrease, $6.6 million, was due to the decrease in the actuarially determined reserves over 2009 driven by various programs implemented by Employee Health Services over the past few years to reduce the occurrences of employee injuries and a return-to-work program to have the employee return to work as quickly as medically possible. The other $500 thousand was due to decrease workers compensation payments, all this while adding the Los Gatos employee base.

- As the financial performance of the Hospital did not match to the projected operational budget, no pay-for-performance was accrued in fiscal year for management and employees as in the prior year, thus a decrease of $4.1 million over 2009.

- Employer 403B match increased $4.3 million over fiscal year, partially due to the addition of Los Gatos, but also due to an enriched contribution match for employees with years of service greater than 15 years and 20 years, along with automatic enrollment for all new hires with a threshold of 2% of the employees' salary.

- Healthcare expense increased by approximately $3.0 over 2009 driven by premium increases for coverage by the insurance carrier.

- The employer paid Social Security and Medicare taxes increased $1.1 million over fiscal year 2009 due to an increased employee base at the Mountain View campus and the increased Social Security wage base that occurred in calendar year 2009.

Supplies

Total supply costs increased by $20.1 million, of which $14.7 million was due to the Los Gatos site beginning operations in fiscal year 2010. Additional significant increases were for pharmaceuticals, chemotherapy drugs, and general surgery supplies.

Professional and Purchased Services

Total professional fees and purchased services increased by $16.4 million in 2010 over 2009. The year of operations at Los Gatos campus contributed $8.0 million to this increase.

During the second half of the 2010 fiscal year the operations of the Hospital started to have significant operational losses that began to deplete surplus cash reserves in order to support on-going salaries and wages and non-labor operational expenses. Management, with Board approval, retained a consulting firm that initiated the ACE (Accelerating Continuous Excellence) initiative. This is a process to accelerate, speed up, the process of being more efficient in all areas of the entire hospital organization in order to meet the challenges of the current economy that has caused a significant decrease in patient volumes throughout the healthcare industry and to meet future of national healthcare reform. The primary goals of the Hospital's ACE program are to streamline the Hospital's structure to increase the focus and accountability on operations by cost-savings and revenue-generating initiatives. The monetary goal is saving the entire organization $50 - $70 million annually. Thus retaining this professional consulting firm to drive the ACE initiatives for the organization added $3.9 million in 2010 over 2009.

Another area of increase over the prior 2009 year was for alterations and significant cosmetic improvements to other buildings on the Mountain View campus, in particular the Women's Health Hospital building and the Willow Pavilion, which houses a number of outpatient services. These improvements were not of a capital nature, thus expensed in the current year in the amount of $1.6 million over fiscal year 2009.

The last area of significant increase was in the area of software maintenance costs, some of which was due to the timing of the yearly payments. The Hospital has a significant number of robust clinical software systems that incur annual software maintenance renewal fees. This fiscal year that increase was approximately $2.0 million over prior year.

Depreciation and Amortization

The expense for depreciation and amortization increased $13.5 million in fiscal year 2010 over 2009. The opening of the Los Gatos campus contributed $4.8 million in depreciation expense over fiscal year 2009. The Mountain View campus increased by $8.7 million due to the $480 million Hospital Replacement Project coming online, with its opening on November 15, 2009.

Interest

Interest expense for fiscal year 2010 increased by $6.2 million over 2009. This increase was all at the Mountain View campus as the debt interest on the 2007 and 2009A Bonds were directly expensed to operations after the Hospital Replacement Project opened to patient activities on November 15, 2009. Prior to the opening the qualifying interest was capitalized into the Project.

Rent and Utilities

In 2010 rent and utilities expense category increased by $2.5 million. The full year of operations at the Los Gatos campus contributed $1.7 million to this increase.

The major significant increase outside the addition of Los Gatos campus was the electricity expense at the Mountain View campus. The newly constructed hospital started to come online a number of months prior to its opening in November, thus the Mountain View campus was running two hospitals; the new hospital with significant more square footage was beginning to be "fitted-up" months prior to the opening and the old main hospital that had all patient services in it was still in place during this timeframe. Even after opening of the new hospital, the old main hospital still utilizes its ground and first floors for certain operations, thus electric expense increase in fiscal year 2010 was $1.2 million over 2009.

Other Expenses

Other expenses in 2010 increased by an immaterial amount over fiscal year 2009.

Change in Net Unrealized Gains & Losses on Investments

For fiscal year 2009, the Hospital had two money managers with different investment objectives for the Hospital's surplus cash investments. Total net unrealized gains/losses in stocks and bonds are reported in the District's consolidated financial statements during this fiscal year, future changes in the market value may have different results.

Barrow, Hanley, Mewhinney & Strauss (BHMS)

Stock investments net unrealized loss decreased during fiscal 2010 as the stock market rallied. This resulted in a fiscal year positive change of ($3,226,492) as the market value of assets increased. For comparison, the S&P 500 was up 12.1% on a price basis for the twelve months ended June 30, 2010.

Intermediate bond investments reflect a change from an unrealized loss to an unrealized gain resulting in year over year positive change of $6,191,231. Short maturity bond investments reflect a decrease in the unrealized gain with some gains being realized from sales in the past year with a net result of a year over year negative change ($228,426). The combined bond investments had a positive change of $5,962,805. The bond investment change represents an increase in asset prices as a result of lower interest rates over the fiscal year. For example, the rate on the Treasury five year note was 2.56% at June 30, 2009 compared to 1.77% at June 30, 2010.

Wells Capital Management ("WCM")

Bond investments managed by WCM reflect an increase in the amount of unrealized gains during the period. The change from the prior year was a net gain of $3.6 million. The bond investment change represents a 5.7% increase in market value as a result of lower interest rates and tighter credit spreads over the fiscal year. Intermediate U.S. Treasury yields declined 60 to 80 basis points during the period. In addition the average credit spread of the Barclay's Aggregate Index declined 50 basis points relative to Treasuries further increasing bond prices.

As of the end of the fiscal year, the cost of the Hospital's investments in the WCM Fund was $57.9 million, including reinvestment of income, with the market value of $63.2 million, which represents an unrealized gain of 8.2% of the market value.

Economic Factors and Next Year's Budget

The Board approved the fiscal year 2011 budget at their September 2010 meeting. The fiscal year 2010-11 budget for El Camino Hospital District (all six entities) projects total expenditures of approximately $659.3 million. This estimate includes all operating costs ($628.9 million), non-operating expenses ($12.1 million), and costs of capital ($18.3 million). The projected net income is about $14.3 million and represents a 2.4% net margin. Included in the net margin is the projected income from operations of $0.5 million. Non-operating sources of revenue net of expenses are projected to be $14.0 million, which represents about 98% of the District's total net income and predominately consists of District property tax receipts of $9.0 million for maintenance and operations and investment income for all entities of $16.2 million.

Fiscal Year 2011 will represent the first complete year of operations for the new Los Gatos site and in the new hospital for the Mountain View site. The most significant change in services for the upcoming fiscal year involves the opening of an Acute Rehab site in Los Gatos. Other patient volumes are expected to maintain at similar levels to Fiscal Year 2010 except in select areas of new services at the Los Gatos site.

For all operating revenue and expense areas, the organization has implemented the Accelerated Continuous Excellence ("ACE") initiative. The initiative is looking at revenue enhancement, cost reduction and efficiency improvements through the following ad hoc work groups: Revenue Cycle, Pricing and Chargemaster, Labor, Non-Labor, Wages & Benefits, and Physician Services.

The operating revenue focus for fiscal year 2011 will be on maintaining AR days at 50 or less, implementation of a new revenue integrity department, development of a new clinical documentation process to support severity based payments and improvements in pre-service financial counseling. The increase in operating revenues is based predominately on an increase in prices for services where El Camino was below the strategic target market position.

Improvements in efficiency are expected due to the recently implemented ACE Labor initiative, which is based upon redesigning work flows and a wider organizational flexing of labor to volume fluctuations that are seasonal or economic in nature.

There is renewed focus on reducing supply costs, particularly medical and pharmaceutical supplies though the ACE Non-Labor initiative including new contract negotiations and introduction of a value analysis process to improve standardization. Depreciation expense will increase due to a full year in the new replacement hospital and $18.3 million of anticipated capital requests in fiscal year 2011.

In fiscal year 2011 IT will be focused on implementing a Time and Attendance system organization wide and a Cardiovascular information system in Mountain View. We will implement Knowledge Based Medication Bar Coding and upgrade existing systems to make best efforts to meet the definitions of meaningful use. Additionally, we will continue stages of our ECH eConnect strategy using a portfolio of vendors such as eClinicalWorks and Medicity to support multi-stakeholder data exchanges.

Fiscal Year 2009 Consolidated Financial Analysis

Patient Services Revenues

Gross revenues increased by 9.2% or $157 million over fiscal year 2008. The Hospital implemented an overall average 3% price increase (estimated at $32 million on gross revenue) on July 1, 2008, but this gross increase was notably offset by contractual adjustments from payors (see Deductions from Revenue section) This hospital experienced a 3.88% decrease in total patient days primarily due to the closure of the sub-acute and the transitional care units but the high acuity cases such as cardiac and orthopedic contributed in the overall $76 million increase in gross revenue. Overall outpatient volumes increased by 5.6% mainly due to higher volumes in the psych partial hospital, short stay observation, clinical lab, blood bank, pathology, ultrasound, and CT scanner, which together contributed an additional $49 million in gross charges.

Inpatient Business Activity

Specialty	2009 Days	2008 Days	% Change
Medical/Surgical	50,458	50,335	0.2%
Maternity	11,005	11,400	-3.5%
Pediatrics	151	211	-28.4%
NICU	4,820	4,419	9.1%
Psychiatry	5,917	6,134	-3.5%
Subacute	2,802	5,842	-52.0%
Normal newborn	10,323	10,586	-2.5%
Total	**85,476**	**88,927**	**-3.9%**

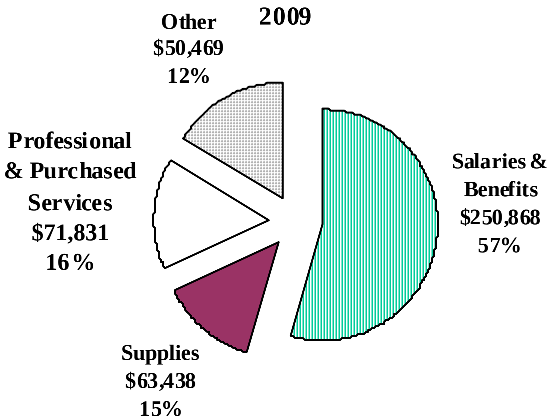
Specialty	2009 LOS	2008 LOS	% Change
Medical/Surgical	4.6	4.6	0.0%
Maternity	2.5	2.5	0.0%
Pediatrics	1.5	1.3	15.4%
NICU	10.4	9	15.6%
Psychiatry	7.6	8	-5.0%
Subacute	365	366	-0.3%
Normal newborn	2.6	2.6	0.0%
Total	**4.1**	**4.2**	**-2.4%**

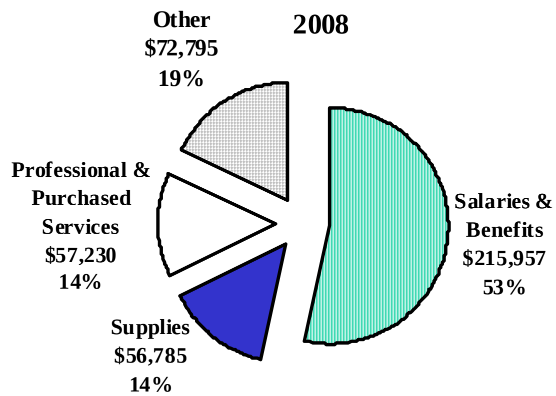
The overall case mix index, which is an indicator of patient acuity, was 1.07 in fiscal year 2009 compared to 1.02 in fiscal year 2008.

Deductions from Revenue

Contractual allowance adjustments, (expressed as a percentage of gross patient revenues) were 74% for 2009 compared to 75% for 2008. There was a slight decrease in contractual allowance adjustments largely due to revenue recoveries associated with contract underpayments from previous years and the considerable decrease in Net A/R days. In addition, contractual allowance adjustments were reduced in 2009 by favorable settlements of prior years' Medicare cost reports.

Operating Expenses





Los Gatos

With the Los Gatos facility acquisition and its subsequent reactivation that occurred on July 12, 2009, El Camino Hospital started fitting up the facility starting in April 2009, began hiring a significant number of employees some of which were former employees of CHLG, stocking supplies, and acquiring new IT equipment. Also an "Activation Consulting Team" was retained to assist management to make their achieved 90 day opening date of July 12. This added overall operating expenses of $5.4 million as the fit up occurred in the last quarter of the fiscal year.

Salaries & Wages

Salaries and benefits in fiscal year 2009 were 54% of operating expenses compared to 53% in fiscal year 2008. Total salaries and benefits increased $34.9 million in 2009 compared to 2008. At the Hospital, $9.3 million of total increase was for registered nurse salaries.

The Hospital, like most others in the nation, continued to be faced with a shortage of nurses and other clinical professionals. In an on-going response to this shortage in this fiscal year, the Hospital continued strategies such as: a recruitment retention taskforce, an enhanced Refer-a-Friend program, and upgrades to revitalize the recruitment website were completed in May 2008. Since the El Camino Hospital nursing division received the American Nurses Association Credentialing Center's prestigious Magnet Designation, El Camino Hospital has been one of only two hospitals in Northern California to hold this prestigious award and only 5% of hospitals nationwide have this designation. This magnet designation has had a very positive effect on nurse recruitment because of the high quality of nursing care this award represents. During 2009, the Hospital's nurse vacancy rate was 2.0% compared to 5.8% for hospitals in Northern California.

This designation is important, as in January 2004 the State of California implemented new RN to patient ratios, which have increased the need for registered nurses and has made the recruitment and retention of RNs an ongoing challenge. During 2009, the Hospital decreased its time to fill RN positions by 20.9% over 2008.

Professional Resources of Nurses ("PRN") in the second year of its contract was provided an across-the-board increase of 5.3% on March 22, 2009.

The Hospital's Stationary Engineers – Local 39, per their contract were provided a 6% increase on November 2, 2009.

The non-contractual, non-management employees received an across-the-board increase of 4% on June 29, 2008.

Directors and managers received increases of 4% on August 10, 2008. Certain senior management salaries were adjusted based on national salary benchmark data provided by an outside consultant, which was reviewed by the Compensation Committee of the Board, and subsequently approved by the full Board of Directors. These adjustments became effective on August 10, 2008.

Employees of El Camino Surgery Center received an average 5% salary increase effective July 9, 2008.

FTEs (Full Time Equivalents) increased in fiscal year 2009 to 1,960 from 1,836 in fiscal year 2008.

Employee Benefits

Overall, employee benefits cost increased by $11.9 million in 2009 compared to 2008, an increase of 29.7%

Significant increases were in the areas of:

- Employer paid healthcare increased $4.8 million for medical, dental, pharmacy, vision, and an employee assistance program. During fiscal year 2009 the Hospital started to pay 100% of the basic healthcare premiums for all employees that were at part time status of one half FTE.

- The Hospital reserved additional pension expense in fiscal year 2009 of $3.9 million over 2008.

- The Hospital began expensing its 403B match program directly from operations rather than funding from the pension assets. This started with calendar year 2009, which equated to $2.5 million in new expense over 2008.

- The Hospital contributed an additional increase in Social Security and Medicare taxes of $1.1 million in fiscal year 2009 over 2008.

- The Hospital experienced a decrease in both workers compensation claims paid and its actuarially determined reserves that in total was $1.4 million less in fiscal year 2009 then in 2008.

Supplies

Total supply costs increased by $6.7 million. Significant increases were for pharmaceuticals; chemotherapy drugs, general surgery, orthopedic and prosthesis and cardiac interventional medical supplies; non-capital IT hardware items; and non-medical maintenance supplies.

Professional and Purchased Services

Total professional fees and purchased services increased by $14.6 million in 2009 over 2008, primarily for increases to physicians providing 24x7 call cover to the Emergency Room and in a full year of new medical directorships in the areas of Heart & Vascular Institute, Cancer Center, and the start up of the Neuroscience Institute for a total of $1.5 million. The consulting and legal expense needed to activate the Los Gatos site added $1.6 million in professional fee services in fiscal year 2009 and in the areas of strategic initiatives added $1.5 million in expense over the prior fiscal year.

For purchased services there were increases for information services technology (“IT”), $5.3 million for providing a greater amount of IT support to the new web-based physician order entry clinical information system and maintenance costs for additional IT hardware and software that has been installed. Maintenance on highly specialized medical equipment added $857,000 over prior year.

Rent and Utilities

In 2009 rent and utilities expense category increased by $678,000. Areas of increases were for building rents for Los Gatos, as the fitting up of that site required adjacent offsite locations to house certain management and activation consultants. At the beginning of the fiscal year the facilities staff and construction project managers relocated from trailers on the Hospital Replacement Project site into a temporary office building adjacent to the Hospital property to accommodate the final construction phases of the project, which amounted to $148,000 in increased rental expense. Utility expenses increased $493,000 primarily driven by the Hospital Replacement Project going into its final year of construction.

Other Expenses

Other expenses (includes provision for uncollectible accounts, depreciation and amortization and other) increased by $2.4 million in 2009 over 2008. The provision for uncollectible accounts increased by a modest $383,000. Depreciation and amortization expenses were almost unchanged compared to the prior year due to net of additional build-outs in Melchor Pavilion (for medical office spaces on the second and third floors and a deli opening on the ground floor), with offsets in decreased expense for capital equipment that became fully depreciated during the year. Increases in other expenses were in the areas of professional liability insurance, education and travel, relocation expense, forgiveness of physician income guarantees due to their fulfillment of certain obligations to the hospital and various licensing fees.

Change in Net Unrealized Gains & Losses on Investments

For fiscal year 2009, the Hospital had two money managers with different investment objectives for the Hospital's surplus cash investments. Total net unrealized gains/losses in stocks and bonds are reported in the District's consolidated financial statements during this fiscal year, future changes in the market value may have different results.

Barrow, Hanley, Mewhinney & Strauss (BHMS)

Stock investments net unrealized loss increased during fiscal 2009 from the steep stock market decline. This resulted in a fiscal year negative change of ($9,273,637) from a 23.7% decline in the market value of assets. For comparison, the S&P 500 was down 28.2% on a price basis for the year ended June 30, 2009.

Intermediate bond investments reflect a reduction in the amount of unrealized losses resulting in year over year positive change of $915,771. Short maturity bond investments reflect an increase in the unrealized gain resulting in a year over year positive change of $337,224. The combined bond investments had a positive change of $1,252,995. The bond investment change represents a modest increase in asset prices as a result of slightly lower interest rates over the fiscal year. For example, the rate on the Treasury five year note was 3.33% at June 30, 2008 compared to 2.56% at June 30, 2009.

Wells Capital Management ("WCM")

Bond investments managed by WCM reflect a change during the period from an unrealized loss to an unrealized gain. The change from the prior year was a net gain of $1.7 million. The bond investment change represents a 1.8% increase in market value as a result of lower interest rates over the fiscal year. Intermediate U.S. Treasury yields declined 50 to 80 basis points during the period.

As of the end of the fiscal year, the cost of the Hospital's investments in the WCM Fund was $96.6 million, including reinvestment of income, with the market value of $98.2 million, which represents an unrealized gain of 1.7% of the market value.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
El Camino Hospital District

We have audited the accompanying consolidated balance sheets of El Camino Hospital District as of June 30, 2010 and 2009, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of El Camino Hospital District as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise El Camino Hospital District's basic consolidated financial statements. The supplemental schedules of 2010 consolidating information set forth is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The consolidating supplemental information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Management's discussion and analysis on pages 1 through 14 is not a required part of the consolidated financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

San Francisco, California
October 14, 2010

CONSOLIDATED FINANCIAL STATEMENTS

EL CAMINO HOSPITAL DISTRICT
CONSOLIDATED BALANCE SHEETS
June 30, 2010 and 2009
(In Thousands)

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,551	$ 55,133
Short-term investments	118,884	150,182
Current portion of board designated, restricted funds and trusteed assets	3,845	20,949
Patient accounts receivable, net of allowances for doubtful accounts of $11,638 and $6,445 in 2010 and 2009, respectively	64,941	57,127
Prepaid expenses and other current assets	25,190	12,318
Notes receivable, current	-	639
Total current assets	230,411	296,348
Non-current cash and investments - less current portion		
Board-designated funds	148,882	174,057
Restricted funds	51	6,529
Funds held by trustee	11,484	21,060
Other long-term investments	30,789	24,511
	191,206	226,157
Capital assets, net	726,655	652,694
Pledges receivable, net	218	465
Other assets	49,637	36,218
Total assets	$ 1,198,127	$ 1,211,882
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion capital lease obligations	$ 5,710	$ 4,814
Accounts payable and accrued expenses	20,305	54,455
Salaries, wages, and related liabilities	37,950	36,584
Other current liabilities	14,379	6,654
Estimated third-party payor settlements	1,820	10,850
Current portion of bonds payable	4,246	3,470
Total current liabilities	84,410	116,827
Capital lease obligations, net of current portion	15,787	17,292
Bonds payable, net of current portion	335,337	340,020
Other long-term obligations	9,399	16,302
Workers' compensation, net of current portion	16,919	22,208
Postretirement medical benefits, net of current portion	14,197	13,826
Total liabilities	476,049	526,475
Net assets		
Invested in capital assets, net of related debt	374,598	314,571
Retained earnings reserved for minority interest	2,185	1,542
Restricted	3,117	6,624
Unrestricted	342,178	362,670
Total net assets	722,078	685,407
Total liabilities and net assets	$ 1,198,127	$ 1,211,882

See accompanying notes.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30, 2010 and 2009

(In Thousands)

	2010	2009
Operating revenues		
Net patient service revenue (net of provision for bad debts of $34,386 in 2010 and $24,745 in 2009)	$ 532,918	$ 464,787
Other revenue	21,875	19,314
Total operating revenues	554,793	484,101
Operating expenses		
Salaries, wages, and benefits	306,570	250,868
Professional fees and purchased services	88,196	71,831
Supplies	83,583	63,438
Depreciation and amortization	42,799	29,330
Rent and utilities	13,616	11,121
Other	16,227	10,018
Total operating expenses	550,991	436,606
Income from operations	3,802	47,495
Nonoperating revenues (expenses):		
Investment income, net	25,861	8,961
Property tax revenue	15,608	15,900
Restricted gifts, grants and bequests, and other	880	(38)
Unrealized losses on interest rate swaps	(1,005)	(8,258)
Other, net	(7,832)	(7,658)
Minority interest in subsidiary earnings	(643)	(500)
Total nonoperating revenues and (expenses)	32,869	8,407
Increase in net assets	36,671	55,902
Total net assets, beginning of year	685,407	629,505
Total net assets, end of year	$ 722,078	$ 685,407

See accompanying notes.

EL CAMINO HOSPITAL DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009
(In Thousands)

	2010	2009
Cash flows from operating activities		
Cash received from and on behalf of patients	$ 516,074	$ 467,664
Other cash receipts	21,875	19,342
Cash payments to employees	(310,122)	(241,179)
Cash payments to suppliers	(243,157)	(140,344)
Net cash (used for) from operating activities	(15,330)	105,483
Cash flows from noncapital financing activities		
Property taxes	8,657	9,242
Restricted contributions and investment income	1,127	421
Transfers from restricted funds and other	6,478	(570)
Net cash from noncapital financing activities	16,262	9,093
Cash flows from capital and related financing activities		
Purchases of property, plant, and equipment	(112,805)	(237,528)
Payments on capital leases obligations	(4,564)	(1,304)
Payments on bonds payable	(3,470)	(3,095)
Receipts from issuances of bonds, net	-	50,000
Tax revenue related to general obligation bonds	6,920	6,658
Net cash used for capital and related financing activities	(113,919)	(185,269)
Cash flows from investing activities		
Purchases of investments	(184,350)	(162,415)
Sales of investments	232,801	213,000
Investment income	18,029	1,303
Increase (decrease) in notes receivable	22	(55)
Change in funds held by trustee, net	9,576	50,204
Other	(673)	(957)
Net cash from investment activities	75,405	101,080
Net (decrease) increase in cash and cash equivalents	(37,582)	30,387
Cash and cash equivalents at beginning of year	55,133	24,746
Cash and cash equivalents at end of year	$ 17,551	$ 55,133
Reconciliation of operating income to net cash from operating activities		
Income from operations	$ 3,802	$ 47,495
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	42,799	29,330
Provision for bad debts	34,386	24,745
Changes in assets and liabilities		
Patient accounts receivable, net	(51,230)	(21,840)
Prepaid expenses and other current assets	(7,443)	6,566
Current liabilities, excluding current portion capital lease obligations	(24,818)	18,429
Other long-term obligations	(13,197)	343
Postretirement medical benefits	371	415
Net cash (used for) from operating activities	$ (15,330)	$ 105,483
Supplemental disclosure of noncash transactions		
New capital lease obligations	$ 3,955	$ 19,915

See accompanying notes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The ECSC was 100% acquired by the Hospital on September 17, 2005. Prior to this completed acquisition, the Hospital owned a 50% interest in the ECSC. The ECSC is a Limited Liability Company. In February 2007, the Hospital Board approved the sale of no more than 49% of the total ownership interest in ECSC to qualified physicians at a price equal to fair market value. As of June 30, 2010 and 2009, the Hospital owns 51% of ECSC and the physicians own 49%.

The District is organized as a political subdivision of the State of California and was created for the purpose of operating an acute care hospital and providing management services to certain related corporations. The District is the sole member of the Hospital, and the Hospital is the sole corporate member of the Foundation and CONCERN. As sole member, the District (with respect to the Hospital) and the Hospital (with respect to the Foundation and CONCERN) have certain powers, such as the appointment and removal of the boards of directors and approval of changes to the articles of incorporation and bylaws.

In July 1999, the Hospital established CONCERN and subsequently transferred funds to establish CONCERN as a separate affiliated entity. The purpose of CONCERN is to provide and operate a specialized healthcare service plan for various business organizations nationwide. On March 5, 2001, CONCERN was granted a limited Knox-Keene license from the Department of Corporations of the State of California and commenced its operations.

SVMD was formed in September 2008 as a Limited Liability Corporation ("LLC") a wholly owned subsidiary of the Hospital focused on the expansion of the clinical enterprise outside of the Hospital through various business ventures and physician alignment initiatives that improve access for the Hospital's current patients and new, underserved members of the community, extend healthcare into people's home through the applications of electronic connectivity and assist independent physicians in clinical integration with the Hospital, among other initiatives. It was initially funded by the Hospital with $1.3 million in cash.

Principles of Consolidation – The consolidated financial statements include the accounts of the District and all subsidiaries which are controlled and owned more than 50% for which day-to-day operations are managed by the District. All significant inter-entity accounts and transactions have been eliminated in the consolidated financial statements. Investments for which the District has 50% or less ownership and does not have control are recorded using the equity method. Minority interest represents the proportionate share of the equity in affiliates that is attributable to the minority owners.

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

Use of Estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and Cash Equivalents – Cash and cash equivalents include deposits with financial institutions, and investments in highly liquid debt instruments with an original maturity of three months or less. In addition, in 2010 and 2009, cash and cash equivalents include repurchase agreements, which consist of highly liquid obligations of U.S. governmental agencies. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

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

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

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

Deferred Financing Costs – Financing costs incurred with the issuance of bonds are amortized over the term of the bonds using a method that approximates the effective interest rate method. Amortization of these costs is included in interest expense.

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

Unexpended Bond Funds for the Hospital Project – Proceeds in the Project Funds from the December 2006 General Obligation Bonds and Series A, B and C 2007 Revenue Bonds as well as the Series 2009A Bond Project Funds were completely expended as of June 30, 2010.

Capital Assets – Capital asset acquisitions are recorded at cost. Donated property is recorded at its fair-market value on the date of donation. All purchases over $1,000 are capitalized. Equipment under capital lease is amortized on the straight-line basis over the shorter of the lease term or the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

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

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

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

Investments in Healthcare Related Activities – The District currently holds an interest in Pathways Home Health & Hospice and Private Duty (formerly Continuous Care), which is reported on the equity method of accounting.

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

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

Interest Rate Swap Agreements – During the fiscal year ended June 30, 2007, the Hospital entered into derivative instruments in the form of swap agreements to hedge variable interest rate exposures. During the fiscal year ended June 30, 2008 the underlying variable rate debt was refunded for fixed rate debt, leaving the Hospital with a speculative derivative instrument. Refer to Note 10 for a full description of the interest rate swap agreements.

Net Assets – Net assets of the District are classified as invested in capital assets, restricted net assets, retained earnings reserved for minority interest, and unrestricted net assets.

Invested in capital assets, net of related debt – Invested in capital assets of $374,598,000 and $314,571,000 at June 30, 2010 and 2009, respectively, represent investments in all capital assets (building and building improvements, furniture and fixtures, and information and technology equipment), net of depreciation less any debt issued to finance those capital assets.

Retained earnings reserved for minority interest – Retained earnings reserved for minority interest is the portion of net assets reserved for the 49% minority physician shareholders of ECSC.

Restricted net assets – Restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose or to be maintained by the Foundation in perpetuity.

Unrestricted net assets – Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt, reserved for minority interests or restricted.

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

Net Patient Service Revenue and Patient Accounts Receivable – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. At June 30, 2010 and 2009, the Hospital provided allowances for losses on amounts receivable directly from patients totaling $11,638,000 and $6,445,000, respectively. The distribution of net patient accounts receivable by payor at June 30, 2010 and 2009 is as follows:

	June 30,	
	2010	2009
Medicare	18%	15%
Medi-Cal	3%	3%
Commercial and other	78%	81%
Self pay	1%	1%
	100%	100%

Property Tax Revenue – The District received approximately 43% in 2010 and 28% in 2009 of its total increase in net assets from property taxes. These funds were designated as follows:

	June 30, 2010		June 30, 2009	
Designated to support community benefit programs	$	5,827,000	$	5,732,000
Designated to support Hospital Replacement Project	$	2,830,000	$	3,510,000
Levied for debt service	$	6,920,000	$	6,658,000

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

Charity Care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care amounts are included in net patient revenues in the consolidated financial statements. The amount of charges forgone for services and supplies furnished under the Hospital's charity care policy aggregated approximately $13,398,000 and $12,636,000 in 2010 and 2009, respectively.

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

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

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

Reclassifications – Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

New Accounting Pronouncements – In June 2009, the FASB issued "The FASB Accounting Standards Codification (the "Codification") and the Hierarchy of Generally Accepted Accounting Principles ("GAAP")." The Codification establishes one level of authoritative GAAP and is effective for annual financial statements issued after September 15, 2009. Adoption of the Codification will not have an impact on the District's financial statements but will change the references to accounting pronouncements in the notes to those statements.

The GASB issued GASB Statement 51, *"Accounting and Financial Reporting for Intangible Assets"*, which provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified conditions approach described above to the development cycle of computer software. This statement also establishes guidance specific to amortization of intangible assets, determining useful lives and determining if the asset has an indefinite useful life. This statement is effective for intangible assets acquired in fiscal years ending after June 30, 1980. The District implemented GASB Statement 51 and there was no impact to the financial statements.

NOTE 2 – OPERATING REVENUES

Gross patient revenues are recorded on the basis of usual and customary charges. Gross patient revenues were $2,028,966,000 and $1,868,148,000 for 2010 and 2009, respectively. Deductions from gross patient revenue for contractual and other adjustments totaled $1,496,047,000 and $1,403,361,000 for the years ended June 30, 2010 and 2009, respectively. The percentage of inpatient and outpatient services is as follows:

	2010	2009
Inpatient services	56%	65%
Outpatient services	44%	35%

The following table reflects the percentage of net patient revenues by major payor group:

	2010	2009
Medicare	23%	25%
Contracted rate payors	70%	71%
Commercial insurance and other	1%	2%
Medi-Cal	6%	2%

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

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient nonacute services related to Medicare beneficiaries are paid based on a cost-reimbursement methodology through March 31, 2004. Inpatient nonacute services subsequent to April 1, 2004, are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per diagnosis. The District is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The effect of updating prior year estimates for Medicare and other liabilities was to increase 2010 and 2009 net operating income by $15,620,000 and $6,183,000, respectively. The District's cost reports have been audited by the Medicare fiscal intermediary through June 30, 2007.

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

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

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

NOTE 3 – COMMUNITY BENEFIT (UNAUDITED)

The Hospital maintains records to identify and monitor the level of direct community benefit it provides. These records include the charges foregone for providing the patient care furnished under its charity care policy. For the years ended June 30, 2010 and 2009, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows (in thousands):

	2010	2009
Unpaid costs of Medi-Cal programs	$ 26,324	$ 19,456
Indigent charity care	2,834	2,367
Other community-based programs	23,695	17,832
Total community benefits	$ 52,853	$ 39,655

In furtherance of its purpose to benefit the community, the Hospital provides numerous other services to the community for which charges are not generated and revenues have not been accounted for in the accompanying consolidated financial statements. These services include providing access to healthcare through interpreters, referral and transport services, healthcare screening, community support groups and health educational programs, and certain home care and hospice programs. The estimated costs of Medicare programs in excess of reimbursement from Medicare were $59,446,000 and $43,932,000 for the years ended June 30, 2010 and 2009, respectively.

The Hospital also provides services to the community through the operations of the El Camino Hospital Auxiliary, Inc. (the "Auxiliary"). Services provided by volunteers of the Auxiliary, free of charge to the community, include assistance and counseling to patients and visitors, provision of scholarship awards to qualifying paramedical students, and daily personal contact with members of the community who are living alone. In both 2010 and 2009, these volunteers contributed approximately 114,121 hours in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.

NOTE 4 – CASH DEPOSITS

At June 30, 2010 and 2009, District cash deposits had carrying amounts of $17,551,000 and $55,133,000, respectively, and bank balances of $20,774,000 and $60,423,000, respectively. Of the bank balances at June 30, 2010 and 2009, $881,000 and $1,420,000, respectively, were covered by federal depository insurance.

The District participates in a cash management program provided by its primary depository institution that allows cash in District concentration accounts to be swept daily and invested overnight in reverse repurchase agreements that are not exposed to custodial credit risk because the underlying securities are held by the buyer-lender. At June 30, 2010 and 2009, balances in repurchase agreements had carrying values of $17,243,000 and $57,095,000, respectively, and are included in the carrying amounts above.

NOTE 5 – BOARD-DESIGNATED, RESTRICTED FUNDS AND INVESTMENTS

Board-designated funds, restricted funds, short-term investments and other long-term investments, collectively, as of June 30, 2010 and 2009 comprised the following (in thousands):

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
2010				
Cash and cash equivalents	$ 5,388	$ -	$ -	$ 5,388
Equities	52,710	1,612	(13,770)	40,552
Fixed income securities	242,349	11,378	(1,061)	252,666
	$ 300,447	$ 12,990	$ (14,831)	$ 298,606
2009				
Cash and cash equivalents	$ 43,962	$ -	$ -	$ 43,962
Equities	51,214	1,129	(16,526)	35,817
Fixed income securities	293,395	1,504	(2,512)	292,387
	$ 388,571	$ 2,633	$ (19,038)	$ 372,166

At June 30, 2010, District investment balances and average maturities were as follows:

Investment Type	Fair-Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10
Short-term money market	$ 5,388	$ 5,388	$ -	$ -
Mutual funds	136	136	-	-
Government and agencies	132,879	29,606	84,014	19,259
Corporate bonds	50,749	6,160	29,923	14,666
Domestic fixed income	63,158	-	63,158	-
Foreign fixed income	5,880	-	4,828	1,052
	258,190	$ 41,290	$ 181,923	$ 34,977
Equities	40,416			
Total fair-value	$ 298,606			

At June 30, 2009, District investment balances and average maturities were as follows:

Investment Type	Fair-Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10
Short-term money market	$ 43,962	$ 43,962	$ -	$ -
Mutual funds	141	141	-	-
Government and agencies	124,489	-	115,057	9,432
Corporate bonds	63,068	12,328	39,570	11,170
Domestic fixed income	98,183	-	98,183	-
Foreign fixed income	6,647	-	3,318	3,329
	336,490	$ 56,431	$ 256,128	$ 23,931
Equities	35,676			
Total fair-value	$ 372,166			

Interest Rate Risk – Through its investment policies, the District manages its exposure to fair value losses arising from increasing interest rates by limiting maturity of fixed income securities in its portfolio to no more than ten years.

Credit Risk – District investment policies limit investments to investment grade assets. The investment policy requires investment managers maintain an average of Aa/AA or higher ratings as issued by a nationally recognized rating organization. Additionally, the investment policy requires no more than 50% of total investments to be invested in U.S. corporate notes and bonds.

Foreign Currency Risk – The District's investment policy permits it to invest up to 15 percent of total investment in foreign currency denominated investments. These investments must have a minimum quality rating of BAA3/BBB, or its equivalent or higher, as issued by at least two of the three nationally recognized rating organizations. Those assets identified as foreign fixed income investments above are securities issued by Non-U.S. domiciled issuers. All securities are denominated and payable in (both interest and principal) U.S. dollars. None represent foreign currency risk.

The carrying amount of deposits and investments are included in the District's balance sheets as follows (in thousands):

	2010	2009
Included in the following balance sheet captions:		
Short-term investments	$ 118,884	$ 150,182
Current portion board designated, restricted funds and trusteed assets	-	17,156
Board designated, less current portion	148,882	174,057
Restricted funds, less current portion	51	6,259
Other long-term investments	30,789	24,512
	$ 298,606	$ 372,166

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, is as follows (in thousands):

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated				
Land	$ 27,711	$ 4,808	$ -	$ 32,519
Construction in progress	439,954	72,976	505,030	7,900
	467,665	77,784	505,030	40,419
Capital assets being depreciated				
Land improvement	6,888	6,320	2,190	11,018
Buildings	253,735	460,472	16,065	698,142
Capital equipment	176,606	90,003	12,450	254,159
	437,229	556,795	30,705	963,319
Less accumulated depreciation for				
Land improvement	4,987	504	2,174	3,317
Buildings	138,713	17,444	15,584	140,573
Capital equipment	108,500	24,851	158	133,193
	252,200	42,799	17,916	277,083
Total capital assets being depreciated, net	185,029	513,996	12,789	686,236
Total capital assets, net	$ 652,694	$ 591,780	$ 517,819	$ 726,655

Capital assets activity for the year ended June 30, 2009, is a follows (in thousands):

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets not being depreciated				
Land	$ 10,585	$ 17,126	$ -	$ 27,711
Construction in progress	265,627	176,501	2,174	439,954
	276,212	193,627	2,174	467,665
Capital assets being depreciated				
Land improvement	5,974	914	-	6,888
Buildings	223,031	32,796	2,092	253,735
Capital equipment	146,972	33,266	3,632	176,606
	375,977	66,976	5,724	437,229
Less accumulated depreciation for				
Land improvement	4,746	241	-	4,987
Buildings	125,621	14,512	1,420	138,713
Capital equipment	97,418	14,577	3,495	108,500
	227,785	29,330	4,915	252,200
Total capital assets being depreciated, net	148,192	37,646	809	185,029
Total capital assets, net	$ 424,404	$ 231,273	$ 2,983	$ 652,694

Construction contracts of approximately $535 million exist for the construction of various projects including the new hospital facility. At June 30, 2010, the remaining commitment on these contracts approximated $3.3 million.

NOTE 7 – EMPLOYEE BENEFIT PLANS

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

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

Analysis of Funding Progress - Pension Plan – The following table summarizes the funding status of the District's cash-balance pension plan (in thousands):

Fiscal Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Assets in Excess of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess of AAL as a Percentage of Covered Payroll ((a-b)/c)
2003	$ 65,271	$ 52,547	$ 12,724	124.2%	$ 74,342	17.1%
2004	$ 64,231	$ 58,846	$ 5,385	109.2%	$ 86,091	6.3%
2005	$ 77,946	$ 65,366	$ 12,580	119.2%	$ 95,430	13.2%
2006	$ 84,129	$ 72,616	$ 11,513	115.9%	$ 103,024	11.2%
2007	$ 91,100	$ 78,764	$ 12,336	115.7%	$ 111,238	11.1%
2008	$ 102,877	$ 87,884	$ 14,993	117.1%	$ 121,525	12.3%
2009	$ 103,654	$ 94,352	$ 9,302	109.9%	$ 133,654	7.0%
2010	$ 90,565	$ 109,373	$ (18,808)	82.8%	$ 149,616	-12.6%

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

Fiscal Year	Beginning of Year NPO (a)	Annual Pension Cost (b)	Actual Contribution (c)	Increase (Decrease) in NPO (b-c)	End of Year NPO/ (Prepaid Pension Cost) ((a)+b-c))
2003	$ 622	$ 1,627	$ -	$ 1,627	$ 2,249
2004	$ 2,249	$ 1,116	$ 1,271	$ (155)	$ 2,094
2005	$ 2,094	$ 16	$ 3,101	$ (3,085)	$ (991)
2006	$ (991)	$ 774	$ 5,700	$ (4,926)	$ (5,917)
2007	$ (5,917)	$ 1,882	$ 2,731	$ (849)	$ (6,766)
2008	$ (6,766)	$ 1,766	$ 9,500	$ (7,734)	$ (14,500)
2009	$ (14,500)	$ 5,034	$ 6,300	$ (1,266)	$ (15,766)
2010	$ (15,766)	$ 5,356	$ 16,900	$ (11,544)	$ (27,310)

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

	2010	2009	2008
Expected long-term return on assets	8.0%	8.5%	8.5%
Rate of compensation increases	4.0%	4.0%	4.0%
Date of actuarial valuation	January 2009	January 2008	January 2007
Amortization period of NPO	30 years	3 years	3 years

Components of pension activity for the years ended June 30, 2010 and 2009, consist of the following (in thousands):

	2010	2009
Pension expense	$ 5,356	$ 5,036
Employer contributions	$ 16,900	$ 10,800
Benefits paid	$ 5,087	$ 3,853

Eligible employees of the Hospital may also elect to participate in a separate deferred compensation plan (the 403(b) plan) pursuant to Section 403(b) of the Code. The Hospital acts as the administrator and sponsor, and the 403(b) plan's assets are held by trustees designated by the Hospital's management. Employees are eligible to participate upon employment, and participants are immediately vested in their elective contributions plus actual earnings thereon. The Hospital will match employee contributions to the 403(b) plan, subject to a maximum of 4% of each participant's annual plan compensation. Participants are eligible for employer match in the second plan year in which they work at least 1,000 hours, and they must be on the payroll at the end of the plan year (December 31). Employer matching contributions under the 403(b) plan are made to the cash balance pension plan and earn interest as defined by that plan. Employer matching contributions to the 403(b) plan of $5,506,000 and $4,626,000 in 2010 and 2009, respectively, are included in benefits expense. Participants are immediately vested in the employer contributions included in the cash balance pension plan.

NOTE 8 – POSTRETIREMENT MEDICAL BENEFITS

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

Benefits are funded by the Hospital on a pay-as-you go basis. If a participant terminates from the Hospital after 20 years of enrollment but before reaching age 62, he or she can choose to contribute to the plan between ages 55 and 61 to retain the plan's benefits. At age 62, eligible retirees are given an annual credit based on years of service to pay for health benefits. As of June 30, 2009, approximately 133 employees and former employees were eligible to participate in the plan.

The following table sets forth the plan's funded status, as actuarially determined on an accrual basis, reconciled with the amounts shown in the District's balance sheets as of June 30, 2010 and 2009 (in thousands):

	2010		2009	
Accumulated benefit obligation	$	20,292	$	19,799
Fair-value of plan assets		-		-
Funded status	$	(20,292)	$	(19,799)
Accrued benefit cost recognized in the balance sheets	$	(14,197)	$	(13,826)

The net period postretirement benefit activity for 2010 and 2009 included the following components (in thousands):

	2010		2009	
Benefit expense	$	1,090	$	1,081
Employer contributions	$	886	$	666
Plan participants' contributions	$	301	$	251
Benefits paid	$	1,187	$	917

The measurement date for the actuarial analysis is June 30 for both 2010 and 2009. For measurement purposes, annual rates of increase in the per capita cost of covered healthcare benefits of 11% and 9% were assumed for fiscal years 2010 and 2009, respectively. The rate was assumed to decrease gradually to 5.5% over the next four years and remain at that level thereafter. The dental benefit trend rate was assumed to be 5% in all future years. The discount rates used was 4.25% for both 2010 and 2009.

The following table summarized projected future postretirement plan benefits payments:

2011	$	809,000
2012		915,000
2013		993,000
2014		1,127,000
2015		1,215,000
2016-2019		7,614,000
	$	12,673,000

NOTE 9 – INSURANCE PLANS

The District's professional, general, automobile, and directors and officers liability insurance is purchased from BETA Healthcare Group ("BHG"). BHG was formed in 1979 for the purpose of operating a self-insurance program for the above insurance coverage for certain hospital districts of the Association of California Hospital Districts ("ACHD"). Effective October 1, 1989, BHG became a separate joint powers authority, establishing itself as a public agency and distinct from ACHD. BHG is managed by a board of 16 representatives (the BHG Council), 14 of whom are elected by the members.

The District's other insurance needs are brokered by Alliant Insurance Services ("Alliant"). This relationship was developed by BHG. Through Alliant, the District purchases its all-risk property insurance (including limited flood), fiduciary, crime, and excess workers' compensation coverage. Given the extreme costs and high deductible of acquiring earthquake insurance, the District has developed a board-designated self-funded earthquake "catastrophic fund." The fair value of this fund was $8,814,000 and $7,784,000 at June 30, 2010 and 2009, respectively.

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

Selected coverages are (in thousands):

Coverage	Policy Limit	Retention
Hospital professional and general liability	$ 30,000	$ 50
Automobile insurance	$ 20,000	$ -
Directors and officers	$ 10,000	$ 25
All-risk property	$ 1,000,000	$ 40
Fiduciary	$ 5,000	$ 25
Excess workers' compensation	$ 10,000	$ 1,000
Commercial crime	$ 5,000	$ 3
Course of construction	$ 325,000	$ 50

Settled claims have not exceeded the District's policy limits in any of the past three years.

The District has actuarial estimates performed annually on its self-insurance plans of professional liability and workers' compensation benefits. Estimated liabilities (which have not been discounted) have been actuarially determined at an expected 75% confidence level and include an estimate of incurred, but not reported, claims.

The change in the liability for self-insurance is as follows (in thousands):

	2010	2009
Beginning balance	$ 27,894	$ 26,376
Current year claims and changes in estimates	(1,445)	7,630
Payment of claims	(4,465)	(6,112)
Ending balance	$ 21,984	$ 27,894

The balances are included in salaries and wages payable, workers' compensation and other long-term liabilities in the accompanying balance sheets.

NOTE 10 – LONG-TERM DEBT

Long-term debt consists of the following obligations (in thousands):

	June 30, 2010	June 30, 2009
El Camino Hospital District 2006		
General Obligation Bonds		
Principal	$ 144,975	$ 145,820
Unamortized premium	1,261	1,449
El Camino Hospital Revenue Bonds		
Series 2008		
Principal	142,350	144,975
Unamortized premium	997	1,246
Series 2009		
Principal	50,000	50,000
Total long-term debt	339,583	343,490
Less current maturities	4,246	3,470
Maturities due after one year	$ 335,337	$ 340,020

2010	Balance at June 30, 2009	Additions	Payments	Balance at June 30, 2010
General obligation bonds	$ 147,269	$ -	$ 1,033	$ 146,236
Revenue bonds	196,221	-	2,874	193,347
	$ 343,490	$ -	$ 3,907	$ 339,583

2009	Balance at June 30, 2008	Additions	Payments	Balance at June 30, 2009
General obligation bonds	$ 147,995	$ -	$ 726	$ 147,269
Revenue bonds	148,870	50,000	2,649	196,221
	$ 296,865	$ 50,000	$ 3,375	$ 343,490

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

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

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

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

In May 2008, the Hospital issued $147,525,000 of Santa Clara County Financing Authority Insured Revenue Bonds, Series 2007A, B, and C, at rates of 5.125% to 5.750%, to advance refund $147,525,000 of the outstanding original Series 2007A, B, and C. Principal maturities on the serial bonds range from $875,000 in 2010 to $4,725,000 in 2041, and are due annually on February 1.

Revenue Bonds, Series 2009 – In April 2009, the Hospital issued $50,000,000 of Santa Clara County Financing Authority Insured Revenue Bonds, Series 2009A at rates of 3.247% to 4.7687% to fund completion of the Hospital Replacement construction project. Interest on the Bonds will be payable on the Business Day immediately following the applicable Auction Period. Principal maturities on the bonds range from $100,000 in 2025 to $10,920,000 in 2044, and are due annually on February 1.

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

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

Letter of Credit – In March 2009, in connection with the issuance of the 2009 Series Revenue bonds, the Hospital obtained an irrevocable Letter of Credit issued by a bank for $50,000,000. This Letter of Credit requires the Hospital to maintain a long-term debt services coverage ratio of 1.15 to 1 and expires in 2012. The Hospital is in compliance with these covenants as of and for the year ended June 30, 2010.

Interest Costs – Interest costs incurred for the years ended June 30, 2010 and 2009, are (in thousands):

	June 30, 2010	June 30, 2009
Capitalized	$ 8,758	$ 14,206
Operating expense	5,915	-
Nonoperating expense	-	-
	$ 14,673	$ 14,206

Debt service requirements for long-term debt are as follows, (in thousands):

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2011	$ 1,170	$ 5,061	$ 2,675	$ 9,324
2012	1,525	5,014	2,725	9,208
2013	970	4,945	2,850	9,090
2014	1,300	4,906	3,000	8,947
2015	1,665	4,848	3,075	8,797
2016-2020	14,945	22,789	16,950	41,556
2021-2025	22,576	25,526	20,050	36,647
2026-2030	17,977	43,158	25,150	30,656
2031-2035	48,367	29,007	32,575	23,215
2036-2040	34,480	2,337	41,880	13,948
2041-2045	-	-	41,420	3,529
	$ 144,975	$ 147,591	$ 192,350	$ 194,917

Interest Rate Swaps – On March 7, 2007, the Hospital entered into three interest rate swap agreements in connection with the issuance of the Series 2007 Revenue Bonds. The intention of the swap is to create debt with a synthetic, fixed interest rate on the variable-rate Revenue Bonds. The swaps were effective March 23, 2007, with a termination date of February 1, 2041, and notional amounts of $50 million each, these terms match the terms of the underlying Series 2007 Revenue Bonds. Under each swap transaction, the Hospital pays a fixed rate of interest of 3.204% and the counterparty pays a variable rate of interest equal to the sum of (i) 56% of USD-LIBOR-BBA plus (ii) .23%. In March 2008, the Hospital Board directed management to terminate the floating to fixed interest rate swaps when economically prudent in connection with the refunding of their Series 2007 Revenue Bonds. In December 2009, two of the three swaps were terminated. The fair value of the remaining swap is $6,314,000 at June 30, 2010 and total fair value of all three swaps was $13,307,000 at June 30, 2009, and has been included in other long-term liabilities and unrealized losses on interest rate swaps, respectively.

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

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

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

NOTE 11 – CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding as of June 30, 2010, are as follows (in thousands):

Description	Maturity	Interest Rates	Original Issue	June 30, 2010
Capital leases - equipment net of interest	January 2010 - November 2014	0% to 7.75%	$ 25,711	$ 21,497
Less current portion				5,710
				$ 15,787

Description	June 30, 2009	Increases	Decreases	Outstanding June 30, 2010
Capital leases - equipment	$ 22,106	$ 3,955	4,564	$ 21,497

Description	June 30, 2008	Increases	Decreases	Outstanding June 30, 2009
Capital leases - equipment	$ 3,495	$ 19,915	$ 1,304	$ 22,106

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

Period Ending June 30,	2010
2011	$ 6,262
2012	6,295
2013	5,362
2014	4,933
2015	-
Less interest	(1,355)
	21,497
Less current portion	5,710
	$ 15,787

NOTE 12 – RESTRICTED NET ASSETS

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

	2010	2009
Equipment and expansion	$ -	$ 3,554
Charity and other	1,272	1,308
Endowments	1,794	1,712
Restricted by donor for specific uses	3,066	6,574
Restricted by Department of Managed Health Care	51	50
Total restricted net assets	$ 3,117	$ 6,624

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

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

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

The total of these contributions, measured at the fair value of assets to be received, discounted to their estimated net present value, is $1,665,000 and $1,467,000, respectively, at June 30, 2010 and 2009. The applicable federal discount rate for June 2010 and 2009, of 3.33% and 2.8%, respectively, per annum and the Standard Ordinary Mortality Rate Table were used to arrive at the present value.

NOTE 13 – RELATED PARTY TRANSACTIONS

On April 26, 2007, the Foundation entered into a Loan Agreement by and between The Fogarty Institute for Innovation (the "borrower"), a California nonprofit, public benefit corporation located at the Hospital's Melchor Pavilion (medical office building), and El Camino Hospital Foundation (the "lender"). The Foundation agrees to lend to the borrower from time-to-time amounts not less than $50,000 (the "Advance"), which in the aggregate at any one time the outstanding amount does not exceed the sum of $1 million. The final date that Advances will be made to the borrower is June 30, 2008, and all principal balances loaned and accrued interest are to be repaid no later than December 31, 2009. Interest rate on each Advance will be the prime rate as reported in the Wall Street Journal as of the date of requested Advance. As of June 30, 2010 and 2009, the advances total $637,000 and $548,000 and accrued interest represents $14,000 and $69,000, respectively.

At June 30, 2010, the Foundation made the decision to fully reserve for the outstanding principal and accrued interest as of June 30, 2010, the amount of $651,000. This was done as the loan was granted a one-year extension in December 2009 to subsequently mature in December 2010, but as the loan was extended for this second time and no interim payments have been made during this timeframe, it was prudent to reserve the entire loan as a potential loss in the current fiscal year.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

Lease Commitments – The District is obligated for land and office rental under the terms of various operating lease agreements. Following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010 (in thousands):

	Operating Lease Commitments	Lease Income	Net Lease Benefit
2011	$ 2,302	$ 5,938	$ 3,636
2012	1,474	5,716	4,242
2013	1,252	5,512	4,260
2014	751	4,653	3,902
2015	750	4,830	4,080
Thereafter	20,071	14,027	(6,044)
	$ 26,600	$ 40,676	$ 14,076

Total rental expense in 2010 and 2009 for all operating leases was approximately $2,525,000 and $6,194,000, respectively.

Regulatory Environment – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. The District is subject to routine surveys and reviews by federal, state and local regulatory authorities. The District has also received inquiries from healthcare regulatory authorities regarding its compliance with laws and regulations. Although the District management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and on-going surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Hospital Seismic Safety Act – In 1994, the California legislature enacted Senate Bill 1953, which requires that California hospitals evaluate and upgrade acute care facilities by 2008 in order to meet the requirements of the Hospital Seismic Safety Act. As amended by subsequent legislation, the statute allows hospitals to apply for extensions beyond the 2008 deadline under certain circumstances. During 2007 the Hospital received its requested extension to January 2013 to ensure compliance with the Seismic Safety Act.

The Hospital developed a Facilities Master Plan (the "Plan"), which determined the location of the replacement building to be constructed over the next several years. On April 5, 2006, the Hospital Board of Directors approved Resolution 2006-5 approving a "Hospital Replacement Project" in the amount of $480,000,000 for five (5) construction phases and the related furniture, fixtures, and equipment, soft costs and contingencies that are required to successfully complete the Hospital Replacement Project (including all previously approved expenditures for the Hospital Replacement Project). On June 8, 2006, the ground breaking occurred signaling the start of the new Hospital Replacement Project. The North Addition that is connected to the original building, constructed in 1973, requires substantial interior renovations, but will continue to be utilized as part of the Plan. The Orchard and Willow Pavilions are compliant with State of California seismic requirements and will remain in service.

The District's plan to finance the Hospital Replacement Project includes using proceeds from a combination of: (1) General Obligation bonds, totaling $148 million, that were issued by the County of Santa Clara as approved by the November 4, 2003 Measure D; (2) $150 million in revenue bonds issued by the Hospital in 2007; (3) an additional $50 million revenue bond issued in 2009, and (4) cash reserves.

During the prior 2009 fiscal year, it was decided that the ground floor and first floor of the old Main Tower would remain in operations, but the second through sixth floors would be taken entirely out of service and "moth-balled". Thus the accelerated depreciation that was occurring on the entire old Main Tower to be completed by July 2010 was reset to allow the floors being kept operational to have an extended life to June 2013 and the floors being taken out of operations in November, when the new hospital facility was set to open, were set to be fully depreciated by November 2009.

In the month of October 2009 the new five story, 450,000 square feet, state-of-the-art hospital facility was substantially completed, passed all state safety and operational inspections and on November 15, 2009 was open to all patient activity. Patients that were in the old Main Tower were transferred into the new facility and the emergency department started to accept patients in their new location. The following day surgeries were scheduled and full operations were in place.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before consolidated statements are issued. The District recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The District's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued. The District has evaluated subsequent events through October 14, 2010, which is the date the consolidated financial statements are available to be issued.

SUPPLEMENTAL SCHEDULES

(In Thousands)

	El Camino Hospital	El Camino Hospital District	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Hospital District and Affiliates
ASSETS								
Current assets								
Cash and cash equivalents	$ 15,083	$ 32	$ 31	$ 625	$ 1,539	$ 241	$ -	$ 17,551
Short-term investments	105,315	2,266	3,273	8,030	-	-	-	118,884
Current portion of board designated, restricted funds and trusted assets	2,675	1,170	-	-	-	-	-	3,845
Patient accounts receivable, net of allowances for doubtful accounts of $11,638	63,889	-	-	199	853	-	-	64,941
Prepaid expenses and other current assets	26,257	15	-	300	583	21	(1,986)	25,190
Notes receivable, current	-	-	-	-	19	-	(19)	-
Total current assets	213,219	3,483	3,304	9,154	2,994	262	(2,005)	230,411
Non-current cash and investments - less current portion								
Board-designated funds	133,826	5,665	8,400	991	-	-	-	148,882
Restricted funds	1	-	-	50	-	-	-	51
Funds held by trustee	6,710	4,774	-	-	-	-	-	11,484
Other long-term investments	27,758	-	3,031	-	-	-	-	30,789
	168,295	10,439	11,431	1,041	-	-	-	191,206
Capital assets, net	713,463	12,204	-	346	965	-	(323)	726,655
Pledges receivable	-	-	218	-	-	-	-	218
Other assets	50,735	1,571	-	-	-	-	(2,669)	49,637
Total assets	$ 1,145,712	$ 27,697	$ 14,953	$ 10,541	$ 3,959	$ 262	$ (4,997)	$ 1,198,127

(In Thousands)

	El Camino Hospital	El Camino Hospital District	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Hospital District and Affiliates
LIABILITIES AND NET ASSETS								
Current liabilities								
Current portion capital lease obligations	$ 5,606	$ 8	$ -	$ -	$ 96	$ -	$ -	$ 5,710
Accounts payable and accrued expenses	19,781	-	-	426	757	141	(800)	20,305
Salaries, wages, and related liabilities	36,706	-	-	571	591	82	-	37,950
Other current liabilities	11,823	2,575	323	833	-	29	(1,204)	14,379
Estimated third-party payor settlements	1,820	-	-	-	-	-	-	1,820
Current portion of bonds payable	2,886	1,360	-	-	-	-	-	4,246
Total current liabilities	78,622	3,943	323	1,830	1,444	252	(2,004)	84,410
Capital lease obligations, net of current portion	15,787	-	-	-	-	-	-	15,787
Bonds payable, net of current portion	190,461	144,876	-	-	-	-	-	335,337
Other long-term obligations	8,904	-	495	-	-	-	-	9,399
Workers' compensation, net of current portion	16,919	-	-	-	-	-	-	16,919
Postretirement medical benefits, net of current portion	14,197	-	-	-	-	-	-	14,197
Total liabilities	324,890	148,819	818	1,830	1,444	252	(2,004)	476,049
Net assets								
Invested in capital assets, net of related debt	501,793	(128,088)	-	346	870	-	(323)	374,598
Retained earnings reserved for minority interest	-	-	-	-	-	-	2,185	2,185
Restricted	1	-	3,066	50	-	-	-	3,117
Unrestricted	319,028	6,966	11,069	8,315	1,645	10	(4,855)	342,178
Total net assets	820,822	(121,122)	14,135	8,711	2,515	10	(2,993)	722,078
Total liabilities and net assets	$ 1,145,712	$ 27,697	$ 14,953	$ 10,541	$ 3,959	$ 262	$ (4,997)	$ 1,198,127

EL CAMINO HOSPITAL DISTRICT
CONSOLIDATING SCHEDULE – STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2010
(In Thousands)

	El Camino Hospital	El Camino Hospital District	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Hospital District and Affiliates
Operating revenues								
Net patient service revenue (net of provision for bad debts of $34,386 in 2010)	$ 522,729	$ -	$ -	$ -	$ 10,189	$ -	$ -	$ 532,918
Other revenue	12,279	79	1,779	9,415	5	-	(1,682)	21,875
Total operating revenues	535,008	79	1,779	9,415	10,194	-	(1,682)	554,793
Operating expenses								
Salaries, wages and benefits	296,910	-	853	4,282	4,246	484	(205)	306,570
Professional fees and purchased services	82,779	-	1,183	3,154	1,240	715	(875)	88,196
Supplies	81,398	-	17	-	2,167	1	-	83,583
Depreciation and amortization	42,034	202	-	138	425	-	-	42,799
Rent and utilities	13,466	-	52	180	505	-	(587)	13,616
Other	15,124	-	263	552	301	1	(14)	16,227
Total operating expenses	531,711	202	2,368	8,306	8,884	1,201	(1,681)	550,991
Income (loss) from operations	3,297	(123)	(589)	1,109	1,310	(1,201)	(1)	3,802
Nonoperating revenues (expenses):								
Investment income, net	26,898	(3,079)	1,657	387	(2)	-	-	25,861
Property tax revenue	-	15,608	-	-	-	-	-	15,608
Restricted gifts, grants and bequests, and other	-	-	(426)	-	-	-	1,306	880
Unrealized losses on interest rate swaps	(1,005)	-	-	-	-	-	-	(1,005)
Other, net	(7,767)	-	(651)	(97)	(1,902)	980	1,605	(7,832)
Minority interest in subsidiary earnings	-	-	-	-	-	-	(643)	(643)
Total nonoperating revenues and (expenses)	18,126	12,529	580	290	(1,904)	980	2,268	32,869
Excess (deficit) of revenues over expenses before capital grants, contributions, and additions to permanent endowments	21,423	12,406	(9)	1,399	(594)	(221)	2,267	36,671
Capital transfers	23,692	(18,088)	(5,604)	-	-	-	-	-
Increase (decrease) in net assets	45,115	(5,682)	(5,613)	1,399	(594)	(221)	2,267	36,671
Total net assets, beginning of year	775,707	(115,440)	19,748	7,312	3,109	231	(5,260)	685,407
Total net assets, end of year	$ 820,822	$ (121,122)	$ 14,135	$ 8,711	$ 2,515	$ 10	$ (2,993)	$ 722,078