Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information

El Camino Healthcare District

June 30, 2014 and 2013

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Effective May 6, 2013, ECSC sold certain medical equipment, furnishings, fixtures, inventories, and other tangible personal property in exchange for a seven and one half percent (7.5%) interest in El Camino Ambulatory Surgery Center, ("ECASC"). ECSC has provided a working capital line of credit to ECASC in a principal amount of $750,000 represented by a Promissory Note and has a term of 39 months with an interest rate of 5% per annum. At June 30, 2014, there was a total draw of $414,000 against the line of credit. At June 30, 2013, there were no draws against the line of credit. The Hospital leases the space to ECASC and provides certain services, such as utilities and building/equipment maintenance. There was $506,000 of rental income recorded for the year ended June 30, 2014, and $0 of rental income recorded for the year ended June 30, 2013, related to the lease.

Overview of the Consolidated Financial Statements

This annual report consists of the consolidated financial statements and notes to those statements. These statements are organized to present the District as a whole, including all the entities it controls. Financial information for each separate entity is shown in the supplemental schedules on the last pages of the report. In accordance with the Governmental Accounting Standards Board ("GASB") Codification Section 2200, *Comprehensive Annual Financial Report,* the District presents comparative financial highlights for the fiscal years ended June 30, 2014, 2013, and 2012. This discussion and analysis should be read in conjunction with the consolidated financial statements in this report.

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

Consolidated Financial Highlights

Year Ended June 30, 2014

- The increase in net position for 2014 was $129.3 million over fiscal year 2013, creating a net position of over $1.1 billion at year end.

- Net operating income contributed $69.1 million. Nonoperating added another $60.2 million, primarily driven by realized investment income of $18.7 million and $35.9 million in unrealized investment income. The District contributed to various community benefit programs $7.2 million during the year.

- Total assets increased by $141.5 million over fiscal year 2013, which was mostly in the increase of total surplus cash and investments.

Year Ended June 30, 2013

- The increase in net position for 2013 was $102.9 million over fiscal year 2012. Net operating income contributed $65.0 million. Nonoperating added another $37.9 million, primarily driven by realized investment income and an unrealized gain this year on an interest rate swap.

- Total assets increased by $92.8 million over fiscal year 2012, which was mostly in the increase of total surplus cash and investments.

Summary of Assets, Liabilities and Net Position
As of June 30, 2014, 2013 and 2012

(In Thousands)

	2014	(As Restated) 2013	(As Restated) 2012
Assets:			
Current assets	$ 415,893	$ 379,513	$ 379,838
Board designated and restricted funds, net of current portion	422,119	343,632	236,763
Funds held by trustee, net of current portion	19,418	14,866	13,495
Capital assets, net	663,650	647,036	670,711
Other assets	63,064	57,518	48,934
Total assets	**$ 1,584,144**	**$ 1,442,565**	**$ 1,349,741**
Liabilities:			
Current liabilities	$ 113,325	$ 97,619	$ 100,252
Bonds payable, net of current portion	316,991	321,986	326,578
Other long-term liabilities	50,573	48,955	51,768
Total liabilities	**$ 480,889**	**$ 468,560**	**$ 478,598**
Net position:			
Unrestricted and invested in capital assets, net	$ 1,096,477	$ 966,923	$ 864,266
Restricted by donors - charity and other	4,993	5,297	4,820
Restricted - endowments	1,785	1,785	2,057
Total net position	**$ 1,103,255**	**$ 974,005**	**$ 871,143**
Total liabilities and net position	**$ 1,584,144**	**$ 1,442,565**	**$ 1,349,741**
Operating cash equivalents & short-term investments	$ 279,342	$ 256,841	$ 263,762
Board designated & restricted funds	433,854	357,768	240,795
Total available cash & investments	**$ 713,196**	**$ 614,609**	**$ 504,557**

Investments

The consolidated District maintains sufficient cash balances to pay daily operational expenses and all short term liabilities. In late fiscal year 2012, the Hospital (exclusive of the District) selected an Investment Consultant to assist the Hospital and its subsidiaries in managing its investments, and both the investment policies for Surplus Cash and Cash Balance Plan were updated and approved by the Hospital Board of Directors. The policies allow for greater diversification in the investment portfolios to balance the need for liquidity with a long-term investment focus in order to improve investment returns and the organization's financial strength. Beginning early in fiscal year 2013, an Investment Committee was formed to perform the following responsibilities, among others: monitor performance of investment managers, monitor allocations across investment styles and investment managers, review compliance with the policies, and make recommendations for revisions to the policies. Throughout fiscal years 2014 and 2013, the number of money managers expanded from two money managers for Surplus Cash to approximately twenty-seven managers.

Capital Assets

In fiscal year 2014, the entire organization started the replacement of its current electronic health record. In January 2014 the Hospital entered into a multi-year strategic partnership with the Epic Corporation to install an electronic system known internally as "iCare". El Camino will be able to provide access to lifetime health records across its regional community while delivering real time bedside clinical decision support and data sets that will be optimized with best practices on a single platform. This platform will provide for exchange of patient medical data with many of the Hospital's strategic service area partners thus demonstrating to the community that El Camino and its partners want to treat each citizen using timely, relevant information. The capital investment for the next 18 months will be approximately $73 million with a projected "go-live" date of November 2015.

At the Mountain View campus, the $19 million project to build out a 16,000 square foot area of the new hospital for the relocation of its Data Center and other non IT functions continued with completion to be in fiscal year 2015. The Hospital allocated another $6 million on top of the original $3 million for additional structural design work on its replacement Behavior Health building on campus projected to be at a total cost of approximately $50 million with a completion date in 2017 and in surgical services another surgical robot was added in fiscal year 2014.

At the Los Gatos campus area, the Hospital acquired three medical office buildings adjacent to the main hospital in the spring of 2014 to allow the medical community to continue practices within walking distance of the Los Gatos campus. Seismic upgrades and building infrastructure needs such as boilers/chillers, HVAC controls and furnishings upgrades were continued in fiscal year 2014.

Revenues and Expenses

The following table displays revenues and expenses for 2014, 2013, and 2012:

Revenues & Expenses
Years Ended June 30, 2014, 2013 and 2012

(In Thousands)

	2014	(As Restated) 2013	(As Restated) 2012
Operating revenues:			
Net patient service revenue	$ 719,487	$ 691,545	$ 636,820
Other revenue	28,378	21,565	21,591
Total operating revenues	**$ 747,865**	**$ 713,110**	**$ 658,411**
Operating expenses:			
Salaries, wages & benefits	$ 398,577	$ 373,480	$ 330,472
Professional fees and purchased services	91,240	90,649	93,324
Supplies	104,382	103,603	94,196
Depreciation and amortization	47,839	48,116	49,834
Rent and utilities	15,431	13,937	13,925
Interest	7,403	7,757	7,374
Other	13,930	10,571	9,870
Total operating expenses	**$ 678,802**	**$ 648,113**	**$ 598,995**
Operating income	**$ 69,063**	**$ 64,997**	**$ 59,416**
Nonoperating revenue (expense) items:			
General Obligation bond interest expense	(4,674)	(4,787)	(4,828)
Intergovernmental transfer expense	(2,391)	-	(3,349)
Realized investment income	18,706	26,848	14,069
Unrealized investment income	35,943	95	4,277
Property tax revenues	19,153	18,264	16,420
Restricted gifts, grants and other	1,521	4,432	3,432
Unrealized (loss) gain on interest rate swap	(142)	4,061	(5,781)
Community benefit expense	(7,150)	(7,407)	(6,569)
Other, net	(779)	(3,641)	(4,854)
Noncontrolling interest in subsidiary earnings	-	-	(386)
Total nonoperating revenues and expenses	**$ 60,187**	**$ 37,865**	**$ 12,431**
Increase in net position	**$ 129,250**	**$ 102,862**	**$ 71,847**
CUMULATIVE EFFECT OF RESTATEMENT	**-**	**-**	**(6,055)**
Total net position, beginning of year	**974,005**	**871,143**	**805,351**
Total net position, end of year	**$ 1,103,255**	**$ 974,005**	**$ 871,143**

Fiscal Year 2014 Consolidated Financial Analysis

Net Patient Services Revenues

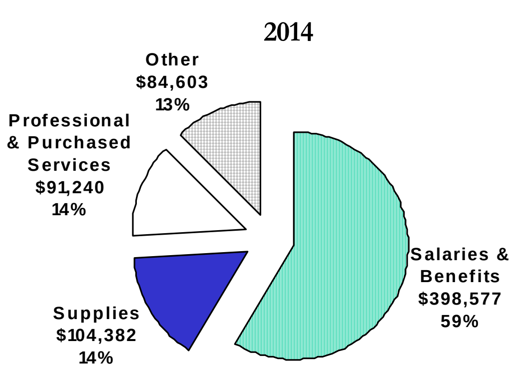
Net patient services revenue in fiscal year 2014 increased by $27.9 million or 4.0% over fiscal year 2013. This increase was due to changes in payor reimbursement arrangements, infusion treatments, surgical volumes, and emergency room visits. Offsetting these increases was the closure of dialysis units. In fiscal year 2014, the Hospital was qualified to receive intergovernmental transfers ("IGT") and experienced an increase in AB 915 settlement revenue.

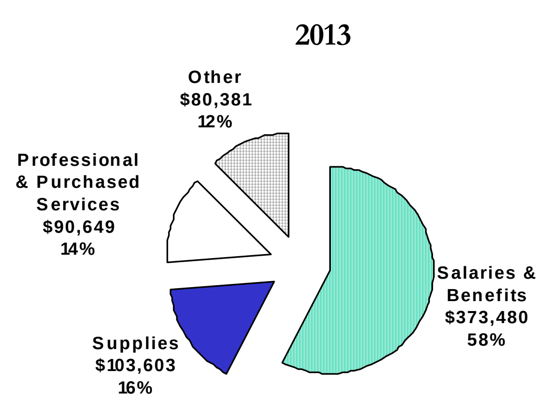
Specialty	2014 Days	2013 Days	% Change
Medical/Surgical	57,210	57,274	-0.1%
Maternity	16,169	13,600	18.9%
Pediatrics	42	72	-41.7%
NICU	5,980	5,936	0.7%
Psychiatry	7,482	7,789	-3.9%
Normal newborn	11,670	11,850	-1.5%
Total	**98,553**	**96,521**	**2.1%**

Specialty	2014 LOS	2013 LOS	% Change
Medical/Surgical	4.7	4.6	2.2%
Maternity	3.2	2.6	23.1%
Pediatrics	1.9	1.7	11.8%
NICU	10.4	10.3	1.0%
Psychiatry	8.9	9.2	-3.3%
Normal newborn	2.4	2.4	0.0%
Total	**4.2**	**4.0**	**5.0%**

The overall case mix index, which is an indicator of patient acuity, was 1.42 in fiscal year 2014, compared to 1.43 in fiscal year 2013.

Operating Expenses





Salaries and Wages

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

Total salaries and wages (including employee benefits) increased by $25.1 million in fiscal year 2014 over 2013, which is 58.7% of total operating expenses compared to 57.6% in fiscal year 2013. Salaries and wages (exclusive of employee benefits) increased by $17 million over fiscal year 2013. RN payroll salaries increased by $8.6 million in fiscal year 2014 compared to 2013. Approximately $3.4 million of this increase was due to scheduled contract wage increases of 2.0% that occurred in September 2013 and March 2014. The remaining increase was due to greater hours worked due to increased patient load. With an RN turnover rate of 6.9%, the Hospital continues to do better than the Northern California rate of 8.3% and the statewide rate of 8.9%, as published by the California Hospital Association ("CHA") at the end of the first quarter of the calendar year 2014.

In fiscal year 2014, the Hospital added 146 Full Time Equivalents ("FTEs") of which 69 FTEs were due to the insourcing of total IT and Health Information Medical Records departments (beginning the last quarter of fiscal year 2013), which for the full year of 2014 added $4.69 million in additional salaries. Additionally, 30 FTEs were added in nursing and clinical areas, 12 FTEs for quality and patient satisfaction, and 17 FTEs for support services.

Employees represented by SEIU United Healthcare Workers ("SEIU – UHW") are under their current contract that extends through June 2015. In fiscal year 2014 they receive 1% increases in July 2013 and January 2014.

The Hospital's Stationary Engineers – Local 39, per their current two year contract through November 2014, received a 2% contractual increase in November 2013. Additionally in November 2013, the contract was renegotiated for a new three year contract term through October 2016.

Hospital-represented, non-management staff were granted a 3% salary and wage increase in July 2013.

Senior executive staff received market-based adjustments in August 2013 that averaged 3.4% in the aggregate.

Employee Benefits

Aggregate employee benefits, including accrued Paid Time Off ("PTO") and Extended Sick Leave increased by $8 million.

Significant increases were as follows:

- Healthcare expense increased by $9.6 million this fiscal year over 2013. This was attributable to the Hospital reverting back to covering 100% of the premium for the healthcare and dental coverage that became effective halfway through fiscal year 2013. Employees had previously contributed 10% of these costs. Also adding to the increase were the overall monthly premium increases and a significant increase in the number of covered employees.

- Accrued Paid Time Off increased by $4.0 million, driven by salary and wage increases, flat dollar differentials being paid for RN's on evening and night shifts and while on extended sick leave that occurred in January 2013.

- Employer Social Security and Medicare taxes increased by $1.9 million in fiscal year 2014, driven by the increase in the Social Security wage threshold, salary and wage increases, and additional FTEs.

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

- Starting in fiscal year 2014, per the contract with Professional Resource of Nurses ("PRN"), the nursing staff could qualify for an incentive bonus for specific pre-determined enterprise-wide inpatient "Patient Satisfaction" measures ("HCAHPS" survey scores). Making great strides in service with Medication Communication being in the top 10% they qualified for approximately $0.9 million in this incentive bonus.

- Pension expense decreased this year over fiscal year 2013 by $4.5 million, attributable to an increased expense contribution to the Cash Balance Plan in fiscal year 2013 to be at the greater than 90% funded status. This additional expense was not needed in fiscal year 2014 to maintain the greater than 90% funded status.

- Workers compensation decreased by $4.3 million this fiscal year due to a decrease in needed actuarial reserves because of changes made administering the workers compensation program by the Hospital and change in the Third Party Administrator in claims processing bringing the backlog of claims current during the year.

Professional and Purchased Services

Total professional fees and purchased services increased by $0.6 million over the prior fiscal year.

Due to the insourcing of the IT and Health Information Management ("HIMS") departments (also discussed in the salaries and wages section) there was a decrease for payments to former outsource providers of $14.6 million offset by the Hospital now paying for all of its software maintenance agreements, which added $6.5 million in expense, for a net decrease of $8.1 million.

Other purchased services and medical equipment maintenance service agreements increased by $6.1 million, principally due to initial IT consulting work for the "iCare" (discussed in Capital Assets on page 3) that could not be capitalized, maintenance contracts for sophisticated medical equipment, HIMS outside coders, online patient accounts statements where a patient can review their accounts realtime, and in the pharmacy for mixing of drug compounds. Fees paid to physicians for various 24/7 on-call arrangements for the two campus' Emergency Rooms and fees in providing physician professional services in supporting Hospital programs of the Cancer Institute and Senior Health Center, increased by $2.6 million in the current year over prior year 2013.

Supplies

Total supplies increased by a modest $0.8 million in fiscal year 2014 over 2013. Primarily this was due to significant price successions negotiated by Materials Management with certain vendors providing medical supplies in spine and orthopedic supplies.

Depreciation and Amortization

Depreciation expense this fiscal year decreased over the prior year by $0.3 million which was a combination of over $20 million in new Imaging equipment that was placed into the new hospital that opened in Mountain View in November 2009 becoming fully depreciated in fiscal year offset by recently acquired medical office buildings at the Los Gatos campus and the new surgical robot at the Mountain View site.

Rent and Utilities

Rent and utilities this fiscal year increased over the prior year by $1.5 million. Primary increases were in utilities of $1.1 million of which $0.3 million was the Hospital now paying the telecomm charges at the Mountain View campus triggered by the insourcing of the IT department occurring in fourth quarter of fiscal year 2013. There were increases to rental expense of $0.4 million due to the need of leasing a CT scanner at the Los Gatos campus as building renovations occur for the Imaging areas and for the tug robots at the Mountain View campus (which are being purchased in fiscal year 2015).

Interest Expense

Operating interest expense is related to the 2007 and 2009 bonds and capitalized equipment leases (G.O. Bonds are nonoperating expense). Interest expense decreased from the prior year by $0.4 million due to decreased 2007 bond interest expense, and all capitalized leases for imaging medical equipment ended this year.

Other Expense

The increase of $3.4 million over the prior fiscal year is due to 1) back property taxes (four years) being billed by the County for certain buildings at the Mountain View campus which are medical office space for physicians; and 2) additional property tax areas with the Hospital taking on more properties as the master tenant around the Mountain View campus and the new medical office buildings acquired at the Los Gatos campus. The Hospital participated in a number of community benefit non-profit sponsorships and expended more in advertising of the Hospitals' health services. Lastly there was a significant increase for training and travel expense due to the beginning of the implementation and install of the Epic electronic health record for over 100 employees traveling to Wisconsin for training and use of the new software.

Change in Net Unrealized Gains and Losses on Investments

For fiscal year 2014, the Hospital had twenty-seven money managers with different investment objectives for the Hospital's surplus cash investments. Total net unrealized gains/losses are reported in the consolidated financial statements during this fiscal year.

The change in net unrealized gains and losses for fiscal year 2014 was a Year over Year ("YOY") positive change of $35.8 million. The net unrealized gain in 2014 was a result of strong equity market returns as the S&P 500 Index was up 24.6% for the twelve months ended June 30, 2014. The combination of equities and mutual funds unrealized gains was the main driver of the increase; equities experienced unrealized gains of $1.8 million in fiscal year 2014 and mutual funds $21.9 million. Mutual fund investments are primarily comprised of equity securities.

Fixed income securities experienced a net unrealized gain of $4.7 million in 2014 as the Barclays Capital Aggregate Index returned 4.4% during fiscal year 2014. Hedge fund investments also generated net unrealized gains of $7.5 million in fiscal year 2014.

Economic Factors and Next Year's Budget

The Board approved the fiscal year 2015 budget at their June 2014 meeting. The District is budgeting net income of $75.6 million in fiscal year 2015. Volumes are budgeted to increase less than 1%. Reimbursement rates are projected to increase by 1.6%. Expenses are budgeted to increase by 4.4%. The organization continues to improve quality indicators and has launched a number of initiatives focused on patient satisfaction, continuum of care, and affordability.

Fiscal Year 2013 Consolidated Financial Analysis

Net Patient Services Revenues

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

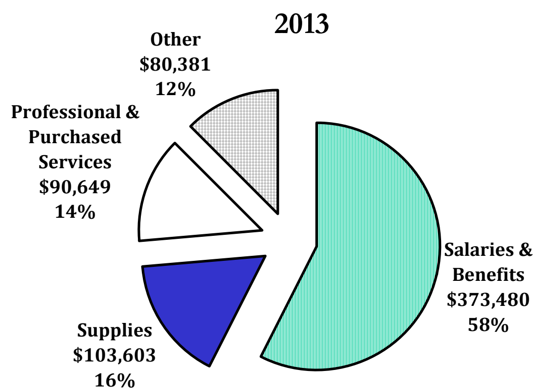
Inpatient Business Activity

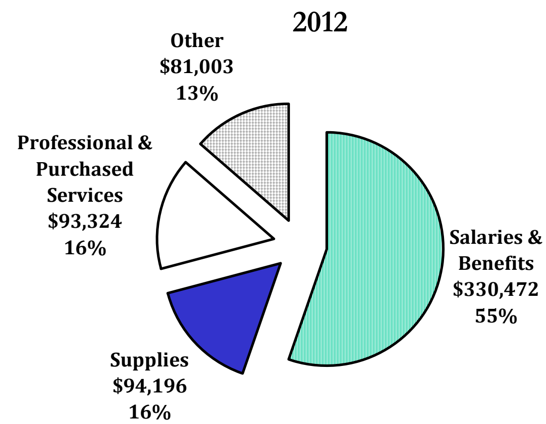
Specialty	2013 Days	2012 Days	% Change
Medical/Surgical	57,274	55,992	2.3%
Maternity	13,600	11,632	16.9%
Pediatrics	72	334	-78.4%
NICU	5,936	4,946	20.0%
Psychiatry	7,789	7,429	4.8%
Normal newborn	11,850	10,469	13.2%
Total	**96,521**	**90,802**	**6.3%**

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

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

Operating Expenses





Los Gatos

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

Salaries and Wages

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

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

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

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

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

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

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

Employee Benefits

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

Significant increases were as follows:

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

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

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

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

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

Professional and Purchased Services

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

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

Supplies

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

Depreciation and Amortization

Depreciation expense in fiscal year 2013 decreased over the prior year by $1.7 million, primarily attributable to medical equipment in the Surgery and Imaging departments and certain major software becoming fully depreciated during fiscal year 2013.

Rent and Utilities

The .1% increase experienced in fiscal year 2013 is immaterial.

Interest Expense

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

Other Expense

The increase of $0.7 million over fiscal year 2012 was principally in the areas of community sponsorships and forgiveness on loans granted certain recruited physicians that are needed within the communities of the Hospital and remained in their practices.

Change in Net Unrealized Gains and Losses on Investments

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

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

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

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
El Camino Healthcare District

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of El Camino Healthcare District, (the "District") which comprise the consolidated statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of El Camino Healthcare District as of June 30, 2014 and 2013, and the consolidated results of operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 1 through 12, and the accompanying supplemental pension and postretirement benefit information on page 43, are not required parts of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers them to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational economic, or historical context. This supplementary information is the responsibility of El Camino Healthcare District's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the El Camino Healthcare District's consolidated financial statements. The accompanying consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position, on pages 40 to 42, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of El Camino Healthcare District's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the El Camino Healthcare District's consolidated financial statements. The accompanying supplemental schedule of community benefit on page 44 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of El Camino Healthcare District's management. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

San Francisco, California
October 22, 2014

CONSOLIDATED FINANCIAL STATEMENTS

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2014 and 2013
(In Thousands)

	2014	(As Restated) 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 53,112	$ 51,259
Short-term investments	226,230	205,582
Current portion of board designated and trusteed assets	11,735	14,136
Patient accounts receivable, net of allowances for doubtful accounts of $9,138 and $9,313 in 2014 and 2013, respectively	103,056	88,362
Prepaid expenses and other current assets	21,730	20,101
Notes receivable, current	30	73
Total current assets	415,893	379,513
Non-current cash and investments		
Board-designated funds	422,066	343,574
Restricted funds	53	58
Funds held by trustee	19,418	14,866
	441,537	358,498
Capital assets, net	663,650	647,036
Pledges receivable, net	846	1,651
Prepaid pension asset	36,099	32,868
Investments in health care affiliates	26,119	22,999
Total assets	$ 1,584,144	$ 1,442,565
LIABILITIES AND NET POSITION		
Current liabilities		
Current portion capital lease obligations	$ -	$ 4,961
Accounts payable and accrued expenses	30,441	17,403
Salaries, wages, and related liabilities	43,847	38,439
Other current liabilities	12,099	11,107
Estimated third-party payor settlements	21,944	21,117
Current portion of bonds payable	4,994	4,592
Total current liabilities	113,325	97,619
Bonds payable, net of current portion	316,991	321,986
Other long-term obligations	10,247	10,005
Workers' compensation, net of current portion	24,037	23,409
Postretirement medical benefits, net of current portion	16,289	15,541
Total liabilities	480,889	468,560
Net position		
Invested in capital assets, net of related debt	363,111	335,114
Restricted - expendable	4,993	5,297
Restricted - nonexpendable	1,785	1,785
Unrestricted	733,366	631,809
Total net position	1,103,255	974,005
Total liabilities and net position	$ 1,584,144	$ 1,442,565

See accompanying notes.

(In Thousands)

	2014	(As Restated) 2013
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $18,690 and $14,623 in 2014 and 2013, respectively)	$ 719,487	$ 691,545
Other revenue	28,378	21,565
Total operating revenues	747,865	713,110
OPERATING EXPENSES		
Salaries, wages, and benefits	398,577	373,480
Professional fees and purchased services	91,240	90,649
Supplies	104,382	103,603
Depreciation and amortization	47,839	48,116
Rent and utilities	15,431	13,937
Other	21,333	18,328
Total operating expenses	678,802	648,113
Income from operations	69,063	64,997
NONOPERATING REVENUES (EXPENSES)		
Investment income, net	54,649	26,943
Property tax revenue		
Designated to support community benefit programs and operating expenses	6,953	6,514
Designated to support capital expenditures	4,145	4,483
Levied for debt service	8,055	7,267
General Obligation bond interest expense	(4,674)	(4,787)
Intergovernmental transfer expense	(2,391)	-
Restricted gifts, grants and bequests, and other, net of contributions to related parties	1,521	4,432
Unrealized (loss) gain on interest rate swaps	(142)	4,061
Community benefit expense	(7,150)	(7,407)
Other, net	(779)	(3,641)
Total nonoperating revenues (expenses)	60,187	37,865
Increase in net position	129,250	102,862
TOTAL NET POSITION, beginning of year, as restated (Note 1)	974,005	871,143
TOTAL NET POSITION, end of year	$ 1,103,255	$ 974,005

See accompanying notes.

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	(As Restated) 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 703,229	$ 693,361
Other cash receipts	28,707	21,565
Cash payments to employees	(391,793)	(368,438)
Cash payments to suppliers	(226,236)	(241,698)
Net cash from operating activities	113,907	104,790
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	11,098	10,997
Restricted contributions and investment income	2,326	5,528
Transfers from restricted funds and other	5	(2)
Net cash from noncapital financing activities	13,429	16,523
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property, plant, and equipment	(65,547)	(24,682)
Proceeds from disposal of property, plant and equipment	765	-
Payments on capital leases obligations	(4,961)	(5,091)
Payments on bonds payable	(4,593)	(4,150)
Interest paid on General Obligation bond debt	(4,674)	(4,787)
Tax revenue related to General Obligation bond debt	8,055	7,267
Net cash used for capital and related financing activities	(70,955)	(31,443)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(867,339)	(1,339,447)
Sales of investments	770,600	1,243,943
Investment income	46,720	15,895
Decrease in notes receivable	43	35
Change in funds held by trustee, net	(4,552)	(1,371)
Net cash used for investing activities	(54,528)	(80,945)
Net increase in cash and cash equivalents	1,853	8,925
CASH AND CASH EQUIVALENTS at beginning of year	51,259	42,334
CASH AND CASH EQUIVALENTS at end of year	$ 53,112	$ 51,259
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	$ 69,063	$ 64,997
Adjustments to reconcile operating income to net cash from operating activities		
Loss on disposal	329	-
Depreciation and amortization	47,839	48,116
Provision for bad debts	18,690	14,623
Changes in assets and liabilities		
Patient accounts receivable, net	(34,948)	(12,807)
Prepaid expenses and other current assets	(7,980)	(10,753)
Current liabilities, excluding current portion capital lease obligations	19,438	(5,586)
Other long-term obligations	728	5,491
Postretirement medical benefits	748	709
Net cash from operating activities	$ 113,907	$ 104,790

See accompanying notes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The District is organized as a political subdivision of the State of California and was created for the purpose of operating an acute care hospital and providing management services to certain related corporations. The District is the sole member of the Hospital, and the Hospital is the sole corporate member of the Foundation and CONCERN. As sole member, the District (with respect to the Hospital) and the Hospital (with respect to the Foundation and CONCERN) have certain powers, such as the appointment and removal of the boards of directors and approval of changes to the articles of incorporation and bylaws. As of June 30, 2014 and 2013, the Hospital owns 100% of ECSC.

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

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

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

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

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

Use of estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates include contractual allowances related to net patient service revenue, provision for uncollectible accounts, fair market values of investments, uninsured losses for professional liability, minimum pension liability, workers' compensation liability, postretirement medical benefits liability, and useful lives of capital assets. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include deposits with financial institutions, and investments in highly liquid debt instruments with an original maturity of three months or less. In addition, in 2014 and 2013, cash and cash equivalents include repurchase agreements, which consist of highly liquid obligations of U.S. governmental agencies. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

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

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

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

Funds held by trustee – According to the terms of both indenture agreements (General Obligation and Revenue Bonds), these amounts are held by the bond trustee and paying agent and are maintained and managed by the trustee. These assets are available for the settlement of future current bond obligations.

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

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

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

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

Investments in health care affiliates – The Hospital holds an interest in Pathways Home Health & Hospice and Pathways Private Duty (formerly Pathways Continuous Care), which are reported based on the equity method of accounting. ECSC holds an interest in El Camino Ambulatory Surgery Center, which is reported based on the cost method of accounting.

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

Self-insurance plans – The Hospital maintains professional liability insurance on a claims-made basis, with liability limits of $40,000,000 in aggregate, and which is subject to a $50,000 deductible. Additionally, the Hospital is self-insured for workers' compensation benefits. The Hospital purchases a Workers' Compensation Excess Policy that insures claims greater than $1,000,000 with a limit of $25,000,000 and a $1,000,000 deductible. Actuarial estimates of uninsured losses for professional liability and workers' compensation have been accrued as other current liabilities and workers' compensation, net of current portion, respectively, in the accompanying consolidated financial statements.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2014	$ 25,709	$ 3,812	$ 3,184	$ 26,337	$ 2,300

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2013	$ 20,331	$ 9,198	$ 3,820	$ 25,709	$ 2,300

Compensated absences - Vested or accumulated vacation and sick leave are recorded as an expense and liability of the Hospital as the benefits accrue to employees. For all employees, vacation leave is accumulated to a maximum of 356 hours per employee per year for a full-time employee, prorated for part time employee, and accumulations are payable in full to employees upon termination. For most employees, the maximum that can be accrued is 400 hours. Sick leave is accumulated indefinitely at a maximum of 40 hours for a full-time employee per year, and is not vested with the employee upon termination.

The following is a summary of changes in compensated absences transactions for the years ended June 30, (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2014	$ 19,298	$ 37,739	$ 35,885	$ 21,152	$ 21,152

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2013	$ 16,897	$ 34,760	$ 32,359	$ 19,298	$ 19,298

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

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

> **Invested in capital assets, net of related debt** – Invested in capital assets of $363,111,000 and $335,114,000 at June 30, 2014 and 2013, respectively, represent investments in all capital assets (building and building improvements, furniture and fixtures, and information and technology equipment), net of depreciation less any debt issued to finance those capital assets.
>
> **Restricted - expendable** – The restricted expendable net position is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation and includes assets in self-insurance trust funds, revenue bond reserve fund assets, and net position restricted to use by donors.

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

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

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

Net patient service revenue and patient accounts receivable – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. At June 30, 2014 and 2013, the Hospital provided allowances for losses on amounts receivable directly from patients totaling $9,125,000 and $13,204,000, respectively. The distribution of net patient accounts receivable by payor at June 30, 2014 and 2013, is as follows:

	June 30,	
	2014	**2013**
Medicare	15%	19%
Medi-Cal	4%	3%
Commercial and other	79%	77%
Self pay	2%	1%
	100%	100%

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

Charity care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of estimated costs for services and supplies furnished under the Hospital's charity care policy aggregated approximately $1,764,000 and $2,417,000 in 2014 and 2013, respectively.

Property tax revenue – The District received approximately 15% in 2014 and 18% in 2013 of its total increase in net position from property taxes. These funds were designated as follows:

	June 30, 2014	June 30, 2013
Designated to support community benefit programs and operating expenses	$ 6,953,000	$ 6,514,000
Designated to support capital expenditures	$ 4,145,000	$ 4,483,000
Levied for debt service	$ 8,055,000	$ 7,267,000

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

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

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

Reclassifications – Certain amounts in the 2013 notes to the consolidated financial statements have been reclassified to conform to the 2014 presentation.

Restatement – The GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65"), which is effective for financial statements for periods beginning after December 15, 2012. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations The District has adopted this statement for the fiscal year ended June 30, 2014, and as a result, the consolidated financial statements presented herein have been restated retrospectively as follows:

	June 30, 2013		
	As previously Reported	Adjustment	As Adjusted
Unrestricted net position, end of year	$ 637,864	$ (6,055)	$ 631,809
Total net position, beginning of year	$ 877,439	$ (6,296)	$ 871,143
Total net position, end of year	$ 980,060	$ (6,055)	$ 974,005
Other assets	$ 6,055	$ (6,055)	$ -
Depreciation and amortization expense	$ 48,357	$ (241)	$ 48,116
Total operating expenses	$ 648,354	$ (241)	$ 648,113
Increase in net position	$ 102,621	$ 241	$ 102,862

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

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

The GASB also issued GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68.* ("GASB No. 71"), which is effective for financial statements for periods beginning after June 15, 2014. GASB No. 71 amends GASB No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB No. 68. The District is currently evaluating the impact of the adoption of GASB No. 71 for the fiscal year ending June 30, 2015.

NOTE 2 – OPERATING REVENUES

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

	2014	2013
Medicare	23%	25%
Commercial and other	74%	73%
Medi-cal	3%	2%
	100%	100%

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

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient services are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per procedure. The District is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The effect of updating prior year estimates for Medicare and other liabilities was to decrease 2014 net operating income by $701,000, and increase 2013 net operating income by $2,650,000. The Hospital's cost reports have been audited by the Medicare fiscal intermediary through June 30, 2007.

Non-Designated Public Hospitals ("NDPHs"), including the Hospital, were authorized, in 2011's AB 113, to use intergovernmental transfers ("IGTs") to obtain federal supplemental funds for Medi-Cal inpatient fee-for-service. The IGTs are used to bring NDPHs, in the aggregate, up to their upper payment limit ("UPL"). The UPL is the federal maximum available under the Medicaid program, as calculated based on the actual costs of providing care. For the years ended June 30, 2014 and 2013, the Hospital recognized amounts under the IGT program of $4,351,000 and $0, respectively, which have been reported as net patient service revenue.

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

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

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

NOTE 3 – CASH DEPOSITS

At June 30, 2014 and 2013, District cash deposits had carrying amounts of $53,112,000 and $51,259,000, respectively, and bank balances of $57,204,000 and $55,780,000, respectively. All of these funds were held in cash deposits, which are collateralized with the California Government Code (“CGC”), except for $250,000 per account that is federally insured by the Federal Deposit Insurance Corporation (“FDIC”).

The District participates in a cash management program provided by its primary depository institution that allows cash in District concentration accounts to be swept daily and invested overnight in reverse repurchase agreements that are not exposed to custodial credit risk because the underlying securities are held by the buyer-lender. At June 30, 2014 and 2013, balances in repurchase agreements had bank balances of $55,883,000 and $54,474,000, respectively, and are included in the carrying amounts above.

NOTE 4 – BOARD-DESIGNATED, TRUSTEED ASSETS AND INVESTMENTS

Board-designated funds, trusteed assets, and short-term investments, collectively, as of June 30, 2014 and 2013, comprised the following (in thousands):

	Amortized	Gross Unrealized		Carrying
	Costs	Gains	Losses	Value
2014				
Cash and cash equivalents	$ 22,857	$ -	$ -	$ 22,857
Mutual funds	129,554	33,125	(37)	162,642
Real estate funds	14,842	425	-	15,267
Hedge funds	86,528	5,179	(289)	91,418
Equities	31,961	9,898	(1,329)	40,530
Fixed income securities	323,307	5,197	(1,187)	327,317
	$ 609,049	$ 53,824	$ (2,842)	$ 660,031
2013				
Cash and cash equivalents	$ 19,008	$ -	$ -	$ 19,008
Mutual funds	124,399	9,533	-	133,932
Real estate funds	-	-	-	-
Hedge funds	50,001	346	(511)	49,836
Equities	31,373	8,113	(1,430)	38,056
Fixed income securities	320,706	4,469	(5,390)	319,785
	$ 545,487	$ 22,461	$ (7,331)	$ 560,617

At June 30, 2014, investment balances and average maturities were as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	$ 22,857	$ 22,857	$ -	$ -	$ -
Mutual funds	162,642	162,642	-	-	-
Real estate funds	15,267	15,267	-	-	-
Hedge funds	91,418	91,418	-	-	-
Government and agencies	126,485	17,953	76,033	20,885	11,614
Corporate bonds	99,602	18,319	58,410	15,351	7,522
Domestic fixed income	89,133	-	12,799	7,701	68,633
Foreign fixed income	12,097	1,536	2,114	4,592	3,855
	619,501	$ 329,992	$ 149,356	$ 48,529	$ 91,624
Equities	40,530				
Total fair value	$ 660,031				

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

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	$ 19,008	$ 19,008	$ -	$ -	$ -
Mutual funds	133,932	133,932	-	-	-
Real estate funds	-	-	-	-	-
Hedge funds	49,836	49,836	-	-	-
Government and agencies	89,036	19,045	64,881	4,239	871
Corporate bonds	120,584	7,091	82,296	20,959	10,238
Domestic fixed income	100,351	-	17,074	9,914	73,363
Foreign fixed income	9,814	-	5,789	2,686	1,339
	522,561	$ 228,912	$ 170,040	$ 37,798	$ 85,811
Equities	38,056				
Total fair value	$ 560,617				

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

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

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

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

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

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

	2014	2013
Included in the following consolidated statement of net position captions:		
Short-term investments	$ 226,230	$ 205,582
Current portion of board designated and trusteed assets	11,735	14,136
Board designated, less current portion	422,066	343,574
	660,031	563,292
Less: current portion of trusteed assets	-	(2,675)
Total carrying amount of deposits and investments	$ 660,031	$ 560,617

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, is as follows (in thousands):

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	$ 39,627	$ 15,503	$ -	$ 55,130
Construction in progress	11,226	13,178	-	24,404
	50,853	28,681	-	79,534
Capital assets being depreciated				
Land improvement	11,283	2,589	-	13,872
Buildings	713,538	10,502	412	723,628
Property under capital leases	26,122	3,210	-	29,332
Capital equipment	238,589	20,565	4,673	254,481
	989,532	36,866	5,085	1,021,313
Less accumulated depreciation for				
Land improvement	5,694	811	-	6,505
Buildings	200,308	20,422	412	220,318
Property under capital leases	22,559	-	-	22,559
Capital equipment	164,788	26,606	3,579	187,815
	393,349	47,839	3,991	437,197
Total capital assets being depreciated, net	596,183	(10,973)	1,094	584,116
Total capital assets, net	$ 647,036	$ 17,708	$ 1,094	$ 663,650

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

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

Construction contracts of approximately $58,334,000 exist for the construction of various projects including upgrading the Los Gatos campus, Los Gatos seismic upgrades, and the Women's Hospital at the Mountain View campus. At June 30, 2014, the remaining commitment on these contracts approximated $24,404,000.

NOTE 6 – EMPLOYEE BENEFIT PLANS

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

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

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

Fiscal Year	Beginning of Year NPO/(Prepaid Pension Asset) (a)	Annual Pension Cost (b)	Actual Contribution (c)	Increase (Decrease) in NPO (b-c)	End of Year NPO/ (Prepaid Pension Asset) ((a)+c-b))
2012	$ (24,239)	$ 12,366	$ 15,654	$ (3,288)	$ (27,527)
2013	$ (27,527)	$ 12,664	$ 18,005	$ (5,341)	$ (32,868)
2014	$ (32,868)	$ 8,769	$ 12,000	$ (3,231)	$ (36,099)

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

	2014	2013	2012
Expected long-term return on assets	6.0%	6.0%	6.0%
Rate of compensation increases	4.0%	4.0%	4.0%
Date of actuarial valuation	January 2013	January 2012	January 2011
Amortization period of NPO	7 years	7 years	7 years

Components of pension activity for the years ended June 30, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Pension expense	$ 8,769	$ 12,664
Employer contributions	$ 12,000	$ 18,005
Benefits paid	$ 9,316	$ 8,024

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 $8,167,000 and $6,797,000 in 2014 and 2013, respectively, are included in benefits expense. Participants are immediately vested in the employer contributions included in the cash–balance pension plan.

NOTE 7 – POSTRETIREMENT MEDICAL BENEFITS

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

Benefits are funded by the Hospital on a pay-as-you go basis. If a participant terminates from the Hospital after 20 years of enrollment but before reaching age 62, he or she can choose to contribute to the plan between ages 55 and 61 to retain the plan's benefits. At age 62, eligible retirees are given an annual credit based on years of service to pay for health benefits. As of June 30, 2014 and 2013, approximately 486 and 655 employees and former employees, respectively, were eligible to participate in the plan. For the fiscal years ended June 30, 2014 and 2013, the Hospital contributed $526,000 and $468,000, respectively, to fund benefits paid in those years.

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

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

	2014	**2013**
Annual required contribution	$ 1,683	$ 896
Interest on postretirement benefit obligation	654	630
Adjustment to annual required contribution	(1,063)	(349)
Annual postretirement benefit expense	1,274	1,177
Employer contributions	(526)	(468)
Increase in accumulated benefit obligation	$ 748	$ 709
Postretirement benefit obligation, beginning of the year	$ 15,541	$ 14,832
Postretirement benefit obligation, end of the year	$ 16,289	$ 15,541

The Hospital's annual postretirement benefit cost, the percentage of annual postretirement benefit cost contributed to the plan, and the postretirement benefit obligation for 2014 and the two preceding years were as follows (in thousands):

	Annual Postretirement Benefit Expense	**Percentage of Annual Postretirement Benefit Expense Contributed**	**Postretirement Benefit Obligation**
Fiscal Year Ended			
June 30, 2012	$ 1,024	71.00%	$ 14,832
June 30, 2013	$ 1,177	39.76%	$ 15,541
June 30, 2014	$ 1,274	41.29%	$ 16,289

As of July 1, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $21,118,000, resulting in an unfunded actuarial accrued liability (UAAL) of $21,118,000. The covered payroll (annual payroll of active employees covered by the plan) was $32,016,000, and the ratio of the UAAL to the covered payroll was -66.0%.

The measurement date for the baseline actuarial analysis as of June 30, 2014 and 2013, is June 30, 2013 and June 30, 2011, respectively, For measurement purposes, annual rates of increase in the per capita cost of covered healthcare benefits of 9% were assumed for both fiscal years 2014 and 2013. The rate was assumed to decrease gradually to 4.5% over the next six years and remain at that level thereafter as of June 30, 2014; the rate was assumed to decrease gradually to 5.5% over the next five years and remain at that level thereafter as of June 30, 2013. The dental benefit trend rate was assumed to be 4.5% and 5% in all future years for 2014 and 2013, respectively. The discount rates used was 4.25% for both 2014 and 2013. The UAAL is being amortized as a level percentage over 30 years on an open basis.

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

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

NOTE 8 – INSURANCE PLANS

The Hospital purchases professional, general, automobile, and directors and officers liability insurance from BETA Healthcare Group ("BHG"), and also purchases all-risk property insurance (including limited flood), fiduciary, crime, and excess workers' compensation coverage needs from Alliant Insurance Services ("Alliant"). The Hospital's coverage is under a claims-made policy with limits of $30 million per occurrence, $40 million in the annual aggregate, and with a self-insured retention level of $50,000 per claim.

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

NOTE 9 – BONDS PAYABLE

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

	June 30, 2014	June 30, 2013
El Camino Hospital District 2006		
General Obligation Bonds		
Principal	$ 140,010	$ 141,310
Unamortized premium	525	703
El Camino Hospital Revenue Bonds		
Series 2008		
Principal	131,100	134,100
Unamortized premium	350	465
Series 2009		
Principal	50,000	50,000
Total long-term debt	321,985	326,578
Less current maturities	4,994	4,592
Maturities due after one year	$ 316,991	$ 321,986

2014

	Balance at June 30, 2013	Payments	Balance at June 30, 2014
General obligation bonds	$ 142,014	$ 1,480	$ 140,534
Revenue bonds	184,564	3,113	181,451
	$ 326,578	$ 4,593	$ 321,985

2013

	Balance at June 30, 2012	Payments	Balance at June 30, 2013
General obligation bonds	$ 143,169	$ 1,155	$ 142,014
Revenue bonds	187,559	2,995	184,564
	$ 330,728	$ 4,150	$ 326,578

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 $1,665,000 in 2015 to $18,050,000 in 2036 are due annually on August 1. Interest at rates ranging from 4.38% to 4.48% and principal of the Capital Appreciation Bonds are payable only at maturity.

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

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

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

In May 2008, the Hospital issued $147,525,000 of Santa Clara County Financing Authority Insured Revenue Bonds, Series 2007A, B, and C, at rates of 5.125% to 5.750%, to advance refund $147,525,000 of the outstanding original Series 2007A, B, and C. Principal maturities on the serial bonds range from $3,075,000 in 2015 to $7,200,000 in 2041, and are due annually on February 1.

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

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

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

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

Interest costs – Interest costs incurred for the years ended June 30, 2014 and 2013, are (in thousands):

	June 30,	
	2014	2013
Operating expense	$ 7,403	$ 7,757
Nonoperating expense	4,674	4,787
	$ 12,077	$ 12,544

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

Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2015	$ 1,665	$ 4,848	$ 3,075	$ 8,797
2016	2,065	4,773	3,200	8,644
2017	2,485	4,690	53,275	8,484
2018	2,950	4,578	3,350	8,320
2019	3,440	4,460	3,525	8,152
2020-2024	23,183	25,526	19,275	37,717
2025-2029	17,633	43,158	22,800	31,957
2030-2034	37,189	29,507	26,825	24,837
2035-2039	49,400	2,338	31,600	15,967
2040-2044	-	-	14,175	5,476
	$ 140,010	$ 123,878	$ 181,100	$ 158,351

Interest rate swaps – On March 7, 2007, the Hospital entered into three interest rate swap agreements in connection with the issuance of the Series 2007 Revenue Bonds. The intention of the swap is to create debt with a synthetic, fixed interest rate on the variable-rate Revenue Bonds. The swaps were effective March 23, 2007, with a termination date of February 1, 2041, and notional amounts of $50 million each, these terms match the terms of the underlying Series 2007 Revenue Bonds. Under each swap transaction, the Hospital pays a fixed rate of interest of 3.204% and the counterparty pays a variable rate of interest equal to the sum of (i) 56% of USD-LIBOR-BBA plus (ii) .23%. In March 2008, the Hospital Board directed management to terminate the floating to fixed interest rate swaps when economically prudent in connection with the refunding of their Series 2007 Revenue Bonds. In December 2009, two of the three swaps were terminated. The fair value of the remaining swap is a liability of $6,818,000 at June 30, 2014, and $6,675,000 at June 30, 2013, included in other long-term obligations in the consolidated statements of net position.

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

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

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

NOTE 10 – CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding as of June 30, 2014 and 2013, are as follows (in thousands):

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

Description	June 30, 2013	Increases	Decreases	Outstanding June 30, 2014
Capital leases - equipment	$ 4,961	$ -	$ 4,961	$ -

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

NOTE 11 – RESTRICTED NET POSITION

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

	2014	2013
Charity and other	$ 4,993	$ 5,297
Endowments	1,735	1,735
Restricted by donor for specific uses	6,728	7,032
Restricted by Department of Managed Health Care	50	50
Total restricted net position	$ 6,778	$ 7,082

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 $2,200,000 and $1,990,000, respectively, at June 30, 2014 and 2013. The applicable federal discount rate for June 2014 and 2013 of 3.14% per annum and the Standard Ordinary Mortality Rate Table were used to arrive at the present value.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Hospital pays vendor-related expenses on behalf of the Foundation and is reimbursed for these costs incurred. The Hospital also pays employee-related expenses, which are reimbursed by the Foundation. The Foundation's employees also participate in the cash-balance pension plan, sponsored by the Hospital. Full footnote disclosures relating to the cash-balance pension plan is included in the consolidated financial statements. The Hospital performs certain administrative functions on behalf of the Foundation for which no amounts are charged to the Foundation. As of June 30, 2014 and 2013, the Foundation has a payable to the Hospital in the amount of $580,954 and $347,373, respectively. During the fiscal years 2014 and 2013, the Foundation paid the Hospital $4,223,199 and $5,984,638 for such expenses, respectively, which included amounts for operations, but also disbursements from Donor Restricted Funds in support of Hospital operations and capital acquisitions.

In June 2012, the Hospital board approved the funding of the Foundation's salaries, wages, and benefits for fiscal year 2014 and 2013, thus along with 2012 fiscal year approved funding of their rent provided a maximum funding of $1,783,197 for both items on an ongoing basis.

Effective May 6, 2013, ECSC sold certain medical equipment, furnishings, fixtures, inventories, and other tangible personal property in exchange for a seven and one half percent (7.5%) interest in El Camino Ambulatory Surgery Center, ("ECASC"). ECSC has provided a working capital line of credit to ECASC in a principal amount of $750,000 represented by a Promissory Note and has a term of 39 months with an interest rate of 5% per annum. At June 30, 2014, there was a total draw of $414,000 against the line of credit. At June 30, 2013, there were no draws against the line of credit. The Hospital leases the space to ECASC and provides certain services, such as utilities and building/equipment maintenance. There was $506,000 of rental income recorded for the year ended June 30, 2014, and $0 of rental income recorded for the year ended June 30, 2013, related to the lease.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

Lease commitments – The District is obligated for land and office rental under the terms of various operating lease agreements. Following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2014 (in thousands):

	Operating Lease Commitments	Lease Income	Net Lease Benefit
2015	$ 1,807	$ 9,572	$ 7,765
2016	1,205	9,370	8,165
2017	1,157	8,984	7,827
2018	1,139	8,209	7,070
2019	1,172	7,128	5,956
Thereafter	25,369	7,048	(18,321)
	$ 31,849	$ 50,311	$ 18,462

Total rental expense in 2014 and 2013 for all operating leases was approximately $2,072,000 and $2,376,000, respectively.

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

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

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

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

NOTE 14 – HEALTH CARE REFORM

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

NOTE 15 – SUBSEQUENT EVENTS

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

SUPPLEMENTARY INFORMATION

(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	El Camino Surgery Center, LLC	Silicon Valley Medical Development	Eliminations	El Camino Healthcare District and Affiliates
ASSETS								
Current assets								
Cash and cash equivalents	$ 2,093	$ 49,226	$ 121	$ 1,067	$ 531	$ 74	$ -	$ 53,112
Short-term investments	4,908	209,028	1,359	10,935	-	-	-	226,230
Current portion of board designated and trusteed assets	11,735	-	-	-	-	-	-	11,735
Patient accounts receivable, net of allowances for doubtful accounts of $9,138	-	102,564	-	492	-	-	-	103,056
Prepaid expenses and other current assets	-	22,632	-	404	414	32	(1,752)	21,730
Notes receivable, current	30	-	-	-	-	-	-	30
Total current assets	18,766	383,450	1,480	12,898	945	106	(1,752)	415,893
Non-current cash and investments								
Board-designated funds	8,307	393,455	20,304	-	-	-	-	422,066
Restricted funds	-	3	-	50	-	-	-	53
Funds held by trustee	10,034	9,384	-	-	-	-	-	19,418
	18,341	402,842	20,304	50	-	-	-	441,537
Capital assets, net	11,877	651,573	95	105	-	-	-	663,650
Pledges receivable, net	-	-	846	-	-	-	-	846
Prepaid pension	-	36,099	-	-	-	-	-	36,099
Investment in health care affiliates	-	26,584	-	-	1,856	-	(2,321)	26,119
Total assets	$ 48,984	$ 1,500,548	$ 22,725	$ 13,053	$ 2,801	$ 106	$ (4,073)	$ 1,584,144

(In Thousands)

LIABILITIES AND NET POSITION	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	El Camino Surgery Center, LLC	Silicon Valley Medical Development	Eliminations	El Camino Heathcare District and Affiliates
Current liabilities								
Accounts payable and accrued expenses	$ -	$ 29,856	$ -	$ 539	$ 62	$ 27	$ (43)	$ 30,441
Salaries, wages, and related liabilities	-	43,227	-	491	50	79	-	43,847
Other current liabilities	2,611	9,614	1,068	803	-	-	(1,997)	12,099
Estimated third-party payor settlements	-	21,944	-	-	-	-	-	21,944
Current portion of bonds payable	1,837	3,157	-	-	-	-	-	4,994
Total current liabilities	4,448	107,798	1,068	1,833	112	106	(2,040)	113,325
Bonds payable, net of current portion	138,697	178,294	-	-	-	-	-	316,991
Other long-term obligations	-	10,247	-	-	-	-	-	10,247
Workers' compensation, net of current portion	-	24,037	-	-	-	-	-	24,037
Postretirement medical benefits, net of current portion	-	16,289	-	-	-	-	-	16,289
Total liabilities	143,145	336,665	1,068	1,833	112	106	(2,040)	480,889
Net position								
Invested in capital assets, net of related debt	(106,888)	470,122	95	105	-	-	(323)	363,111
Restricted - expendable	-	3	4,990	-	-	-	-	4,993
Restricted - nonexpendable	-	-	1,735	50	-	-	-	1,785
Unrestricted	12,727	693,758	14,837	11,065	2,689	-	(1,710)	733,366
Total net position	(94,161)	1,163,883	21,657	11,220	2,689	-	(2,033)	1,103,255
Total liabilities and net position	$ 48,984	$ 1,500,548	$ 22,725	$ 13,053	$ 2,801	$ 106	$ (4,073)	$ 1,584,144

CONSOLIDATING SCHEDULE – STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	El Camino Surgery Center, LLC	Silicon Valley Medical Development	Eliminations	El Camino Healthcare District and Affiliates
Operating revenues								
Net patient service revenue (net of provision for bad debts of $18,690)	$ -	$ 719,487	$ -	$ -	$ -	$ -	$ -	$ 719,487
Other revenue	85	20,498	-	10,125	106	-	(2,436)	28,378
Total operating revenues	85	739,985	-	10,125	106	-	(2,436)	747,865
Operating expenses								
Salaries, wages and benefits	-	395,286	1,446	2,906	-	647	(1,708)	398,577
Professional fees and purchased services	340	86,303	1,297	4,903	107	268	(1,978)	91,240
Supplies	-	104,353	18	-	11	-	-	104,382
Depreciation and amortization	250	47,546	13	30	-	-	-	47,839
Rent and utilities	-	15,324	134	192	-	-	(219)	15,431
Other	-	20,867	186	274	6	-	-	21,333
Total operating expenses	590	669,679	3,094	8,305	124	915	(3,905)	678,802
(Loss) income from operations	(505)	70,306	(3,094)	1,820	(18)	(915)	1,469	69,063
Nonoperating revenues (expenses):								
Investment income, net	371	51,177	2,641	442	18	-	-	54,649
Property tax revenue								
Designated for community benefit programs and operating expenses	6,953	-	-	-	-	-	-	6,953
Designated for capital expenditures	4,145	-	-	-	-	-	-	4,145
Levied for debt service	8,055	-	-	-	-	-	-	8,055
General Obligation bond interest expense	(4,674)	-	-	-	-	-	-	(4,674)
Intergovernmental transfer expense	(2,391)	-	-	-	-	-	-	(2,391)
Restricted gifts, grants and bequests, and other, net of contributions to related parties	-	-	3,039	-	-	-	(1,518)	1,521
Unrealized loss on interest rate swap	-	(142)	-	-	-	-	-	(142)
Community benefit expense	(5,673)	(1,477)	-	-	-	-	-	(7,150)
Other, net	-	(957)	-	(400)	-	947	(369)	(779)
Total nonoperating revenues and (expenses)	6,786	48,601	5,680	42	18	947	(1,887)	60,187
Excess (deficit) of revenues over expenses before capital grants, contributions, and additions to permanent endowments	6,281	118,907	2,586	1,862	-	32	(418)	129,250
Capital transfers	3,355	(1,542)	(54)	(2,304)	545	-	-	-
Increase (decrease) in net position	9,636	117,365	2,532	(442)	545	32	(418)	129,250
Total net position, beginning of year (as restated)	(103,797)	1,046,518	19,125	11,662	2,144	(32)	(1,615)	974,005
Total net position, end of year	$ (94,161)	$ 1,163,883	$ 21,657	$ 11,220	$ 2,689	$ -	$ (2,033)	$ 1,103,255

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

Fiscal Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Assets in Excess of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess/ (Shortfall) of AAL as a Percentage of Covered Payroll ((a-b)/c)
2010	$ 90,565	$ 109,373	$ (18,808)	82.8%	$ 149,616	-12.6%
2011	$ 118,424	$ 128,154	$ (9,730)	92.4%	$ 178,936	-5.4%
2012	$ 133,257	$ 150,895	$ (17,638)	88.3%	$ 205,695	-8.6%
2013	$ 138,356	$ 156,175	$ (17,819)	88.6%	$ 209,314	-8.5%
2014	$ 171,435	$ 161,919	$ 9,516	105.9%	$ 227,707	4.2%

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

Fiscal Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded Actuarial Accrued Liability UAAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Assets in Excess/ (Shortfall) of UAAL as a Percentage of Covered Payroll ((a-b)/c)
2012	$ -	$ 20,820	$ (20,820)	0.0%	$ 45,392	-45.9%
2013	$ -	$ 21,118	$ (21,118)	0.0%	$ 32,016	-66.0%
2014	$ -	$ 22,518	$ (22,518)	0.0%	$ 44,426	-50.7%

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

Fiscal Year	Beginning of Year Net Benefit Obligation (a)	Annual Required Contribution (b)	Actual Contribution (c)	Annual Postretirement Benefit Cost (d)	Increase in Net Benefit Obligation (d-c)	End of Year Net Benefit Obligation ((a)+(d-c))
2012	$ 14,535	$ 890	$ 727	$ 1,024	$ 297	$ 14,832
2013	$ 14,832	$ 896	$ 468	$ 1,177	$ 709	$ 15,541
2014	$ 15,541	$ 1,683	$ 526	$ 1,274	$ 748	$ 16,289

The District and the hospital maintain 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, 2014 and 2013, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows (in thousands):

	2014	2013
Unpaid costs of Medi-Cal programs	$ 18,653	$ 22,515
Indigent charity care	1,764	2,417
	20,417	24,932
Other community-based programs		
Dialysis	6,201	5,248
Psychiatric	5,884	3,522
Clinical trial	1,771	1,433
Ambulatory care	6,818	6,480
Community health center	2,531	2,326
Psychiatric outpatient	1,953	-
Total other community-based programs	25,158	19,009
Total community benefits	$ 45,575	$ 43,941

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 $82,833,000 and $66,852,000 for the years ended June 30, 2014 and 2013, 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 2014 and 2013, these volunteers contributed approximately 114,872 and 122,000 hours, respectively in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.