

**Washington Township
Health Care District**

**Financial Statements
June 30, 2011 and 2010**

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Index
June 30, 2011 and 2010

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis, Years ended June 30, 2011 and 2010	2
Financial Statements	
Balance Sheets, June 30, 2011 and 2010	17
Statements of Revenues, Expenses, and Changes in Net Assets, Years ended June 30, 2011 and 2010	18
Statements of Cash Flows, Years ended June 30, 2011 and 2010	19
Notes to Financial Statements	20
Supplemental Information	
Supplemental Pension and Post-Employment Benefit Information	50



Report of Independent Auditors

The Board of Directors
Washington Township Health Care District

In our opinion, the financial statements of the business-type activities and discretely presented component unit of the Washington Township Health Care District (the "District") which collectively comprise the District's basic financial statements as listed in the table of contents, present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the District at June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The Management's Discussion and Analysis on pages 2 through 16 and the Supplemental Pension and Post-Employment Benefit information on pages 50 through 53 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

November 4, 2011

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Management's Discussion and Analysis

Years ended June 30, 2011 and 2010

Overview of the Financial Statements

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

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

District Financial Highlights for Fiscal Year 2011

- Total assets increased \$119.7 million, from \$716.2 million at June 30, 2010 to \$835.9 million at June 30, 2011. Total cash and investments increased by \$37.6 million, from \$376.9 million to \$414.5 million, while net patient accounts receivable increased \$14.6 million, from \$51.7 million to \$66.3 million. Days of gross revenue in accounts receivable were 66 at June 30, 2011 as compared to 72 at June 30, 2010. Net capital assets increased \$55.1 million, from \$260.5 million to \$315.6 million, and prepaid pension costs of \$1.5 million changed to \$0 at June 30, 2011.
- Total liabilities increased \$63.1 million, from \$359.5 million at June 30, 2010 to \$422.6 million. At June 30, 2011. Current liabilities decreased \$5.6 million, from \$87.1 million to \$81.5 million, and long-term liabilities increased \$68.7 million, from \$272.4 million to \$341.1 million.
- Net assets increased \$56.7 million for 2011, from \$356.7 million to \$413.4 million.

District Financial Highlights for Fiscal Year 2010

- Total assets increased \$149.0 million, from \$567.2 million at June 30, 2009 to \$716.2 million at June 30, 2010. Total cash and investments increased by \$94.8 million, from \$282.1 million to \$376.9 million, while net patient accounts receivable increased \$6.1 million, from \$45.6 million to \$51.7 million. Days of gross revenue in accounts receivable were 72 at June 30, 2010 as compared to 65 at June 30, 2009. Net capital assets increased \$54.5 million, from \$206.0 million to \$260.5 million, and prepaid pension costs decreased \$12.6 million, from \$14.1 million to \$1.5 million.
- Total liabilities increased \$92.0 million, from \$267.5 million at June 30, 2009 to \$359.5 million at June 30, 2010. Current liabilities increased \$13.5 million, from \$73.6 million to \$87.1 million, and long-term liabilities increased \$78.5 million, from \$193.9 million to \$272.4 million.
- Net assets increased \$57.0 million for 2010, from \$299.7 million to \$356.7 million.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Management's Discussion and Analysis

Years ended June 30, 2011 and 2010

Foundation Financial Highlights for Fiscal Year 2011

- Total assets increased \$0.9 million, from \$6.3 million at June 30, 2010 to \$7.2 million at June 30, 2011. Total cash and investments decreased by \$0.4 million, from \$5.6 million to \$5.2 million, while net contributions receivable increased \$1.3 million from \$0.7 million to \$ 2.0 million.
- Net assets increased \$0.9 million for 2011, from \$6.3 million to \$7.2 million.

Foundation Financial Highlights for Fiscal Year 2010

- Total assets decreased \$0.3 million, from \$6.6 million at June 30, 2009 to \$6.3 million at June 30, 2010. Total cash and investments increased by \$0.2 million, from \$5.4 million to \$5.6 million, while net contributions receivable decreased \$0.4 million from \$1.1 million to \$0.7 million.
- Net assets decreased \$0.2 million for 2010, from \$6.5 million to \$6.3 million.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

Financial Analysis of the District

The District's net assets increased \$56.7 million, from \$356.7 million at June 30, 2010 to \$413.4 million at June 30, 2011.

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

Table 1
Summary of Assets, Liabilities, and Net Assets
June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands)		
Assets:			
Current assets	\$ 108,710	\$ 92,980	\$ 74,032
Long-term investment and restricted funds	383,187	350,536	265,985
Capital assets, net	315,564	260,461	206,033
Other assets	28,474	12,261	21,119
Total assets	<u>\$ 835,935</u>	<u>\$ 716,238</u>	<u>\$ 567,169</u>
Liabilities:			
Current liabilities	\$ 81,508	\$ 87,071	\$ 73,585
Long-term debt	292,147	240,510	163,530
Other long-term liabilities	48,927	31,920	30,342
Total liabilities	<u>422,582</u>	<u>359,501</u>	<u>267,457</u>
Net assets:			
Invested in capital assets, net of related debt	129,415	114,963	105,222
Restricted - expendable	2,800	2,804	2,804
Reserved for Minority Interest	5,646	—	—
Unrestricted	275,492	238,970	191,686
Total net assets	<u>413,353</u>	<u>356,737</u>	<u>299,712</u>
Total liabilities and net assets	<u>\$ 835,935</u>	<u>\$ 716,238</u>	<u>\$ 567,169</u>

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

In 2011, the District's cash and investment position increased \$37.6 million. Table 2 provides a summary of cash and investments:

Table 2
Summary of Cash and Investments
June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands)		
Cash and cash equivalents and short-term investments	\$ 31,321	\$ 26,394	\$ 16,088
Board designated fund – funded depreciation	188,511	194,789	160,502
Board designated fund – pension funding	69,403	45,882	22,129
Workers' compensation fund	11,102	10,931	10,567
Unexpended capital bond fund, excluding amounts required for current liabilities	111,371	96,130	69,983
Specific purpose fund	<u>2,800</u>	<u>2,804</u>	<u>2,804</u>
Total available cash and investments	<u>\$ 414,508</u>	<u>\$ 376,930</u>	<u>\$ 282,073</u>

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

As of June 30, 2011, the District has reserved \$69.4 million as Board designated funds for future pension plan funding. The funded ratio for the pension plan would be approximately 75% at June 30, 2011 if these funds were included in the pension plan assets.

Capital Assets, Net

Net capital assets increased \$55.1 million from \$260.5 million at June 30, 2010 to \$315.6 million at June 30, 2011. This increase resulted from \$62.0 million in capital additions and \$12.8 million in net capitalized interest expense and investment income, offset by \$19.7 million in operating and non-operating depreciation of the District's assets. The capital additions include \$9.7 million in equipment, building, and land improvements combined with an increase of \$65.1 million in construction in progress. The majority of the capital expenditures in the current year were related to construction work on the Central Utility Plant and the new Center for Joint Replacement. The District continued its investment in information technology, most significantly with the purchase of the EPIC Electronic Medical Record which provides an integrated patient record. Additionally, upgrades were made to the information technology in Pharmacy with Med Carousel, and Medication Reconciliation, and to Information Security with monitoring, patching, and encryption software. At June 30, 2011, outstanding commitments related to capital projects totaled \$26.6 million.

Net capital assets increased \$54.5 million from \$206.0 million at June 30, 2009 to \$260.5 million at June 30, 2010. This increase resulted from \$65.9 million in capital additions and \$7.6 million in net capitalized interest expense and investment income, offset by \$19.0 million in operating and non-operating depreciation of the District's assets. The capital additions include \$11.5 million in equipment, building, and land improvements combined with an increase of \$62.0 million in construction in progress. A majority of the capital expenditures in the current year were related to construction work on the Central Utility Plant and the new Center for Joint Replacement. The District continued its upgrade of information

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

technology with investments in the replacement and expansion of critical infrastructure technology including: wireless network infrastructure, electronic security and auditing for protected health information, ambulatory Electronic Medical Record (EMR) expansion, cardiac PACS and ECG, a mobile care phlebotomy system and McKesson multi-system unified upgrades. At June 30, 2010, outstanding commitments related to capital projects totaled \$48.2 million.

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

Debt Administration

As part of the obligations under the bond indentures for the 2010, 2009, 2007 and 1999 Series Revenue Bonds, the District has agreed to maintain a long-term debt coverage ratio of no less than 1.1 to 1.0 on a yearly basis. As of June 30, 2011, the District's long-term debt coverage ratio was 2.4 to 1.0. For the year ended June 30, 2010, the District's long-term debt coverage ratio was 3.0 to 1.0. For both years ended June 30, 2011 and 2010, the District's Moody's rating was A3 with a positive outlook.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

Table 3 shows the revenues, expenses, and changes in net assets for the District for 2011, 2010 and 2009:

Table 3
Summary of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands)		
Operating revenues:			
Net patient service revenues	\$ 464,021	\$ 413,469	\$ 372,259
Other	11,540	14,099	10,542
Total operating revenues	<u>475,561</u>	<u>427,568</u>	<u>382,801</u>
Operating expenses:			
Salaries and wages	197,387	173,857	157,088
Employee benefits	73,681	64,515	54,222
Supplies	58,659	51,761	50,441
Professional fees	41,485	33,246	28,572
Purchased services	36,723	33,713	32,574
Depreciation	19,307	18,490	18,562
Insurance	2,260	1,772	1,712
Other operating expenses	9,296	9,036	7,626
Total operating expenses	<u>438,798</u>	<u>386,390</u>	<u>350,797</u>
Operating income	36,763	41,178	32,004
Non-operating revenues and expenses, net	16,324	15,847	12,989
Increase in net assets before special item	53,087	57,025	44,993
Grant to Alameda County Health Care Services	—	—	(1,500)
Increase in net assets before Minority Interest and Restricted Funds	53,087	57,025	43,493
Release of Restricted Funds	(4)	—	—
Minority Interest in Washington Outpatient Surgery Center	3,533	—	—
Increase in net assets	56,616	57,025	43,493
Total net assets, beginning of year	<u>356,737</u>	<u>299,712</u>	<u>256,219</u>
Total net assets, end of year	<u>\$ 413,353</u>	<u>\$ 356,737</u>	<u>\$ 299,712</u>

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

Financial Analysis of the Foundation

The Foundation's net assets increased \$0.9 million during fiscal year 2011 from \$6.3 million at June 30, 2010 to \$7.2 million. The Foundation's net assets decreased \$0.3 million during fiscal year 2010 from \$6.6 million at June 30, 2009 to \$6.3 million.

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

Table 4
Summary of Assets, Liabilities, and Net Assets
June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands)		
Assets:			
Cash and cash equivalents	\$ 313	\$ 898	\$ 289
Contributions receivable, net	2,015	731	1,147
Short Term investments held by District on behalf of Foundation	3,783	3,700	4,244
Prepaid expenses and other	14	15	17
Investments	<u>1,101</u>	<u>958</u>	<u>897</u>
Total assets	<u>\$ 7,226</u>	<u>\$ 6,302</u>	<u>\$ 6,594</u>
Liabilities:			
Accounts payable and accrued expenses	\$ -	\$ 3	\$ 143
Total liabilities	<u>-</u>	<u>3</u>	<u>143</u>
Net assets:			
Restricted - expendable	6,649	5,867	6,072
Unrestricted	<u>577</u>	<u>432</u>	<u>379</u>
Total net assets	<u>7,226</u>	<u>6,299</u>	<u>6,451</u>
Total liabilities and net assets	<u>\$ 7,226</u>	<u>\$ 6,302</u>	<u>\$ 6,594</u>

In 2011, the Foundation's cash and investment position, including State of California Local Agency Investment Fund (LAIF) investments held by the District on behalf of the Foundation, decreased \$0.4 million from \$5.6 million at June 30, 2010 to \$5.2 million at June 30, 2011. In 2010, the Foundation's cash and investment position increased \$0.2 million from \$5.4 million at June 30, 2009 to \$5.6 million at June 30, 2010.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

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

Table 5
Summary of Cash and Investments
June 30, 2011, 2010 and 2009

	2011	2010	2009
	(In thousands)		
Cash and cash equivalents	\$ 313	\$ 898	\$ 289
Money market and certificates of deposit	519	519	519
Equity mutual fund	582	439	378
	<u>1,414</u>	<u>1,856</u>	<u>1,186</u>
Local Agency Investment Funds held by District on behalf of Foundation	3,783	3,700	4,244
Total available cash and investments	<u>\$ 5,197</u>	<u>\$ 5,556</u>	<u>\$ 5,430</u>

Table 6 shows the Foundation's activities and changes in net assets for 2011, 2010 and 2009:

Table 6
Statement of Activities and Changes in Net Assets
Years ended June 30, 2011, 2010 and 2009

	2011			2010			2009		
	(In thousands)			(In thousands)			(In thousands)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support:									
Contributions	\$ 7	\$ 2,544	\$ 2,551	\$ 7	\$ 736	\$ 743	\$ 18	\$ 2,049	\$ 2,067
Contributed services	582	28	608	591	48	639	489	43	532
Fund-raising events	-	176	176	-	237	237	-	227	227
Investment income	31	-	31	51	-	51	113	-	113
Unrealized gain/(loss) on investments	133	-	133	51	-	51	(143)	-	(143)
	<u>753</u>	<u>2,746</u>	<u>3,499</u>	<u>700</u>	<u>1,021</u>	<u>1,721</u>	<u>477</u>	<u>2,319</u>	<u>2,796</u>
Net assets released from restrictions	1,964	(1,964)	-	1,228	(1,228)	-	888	(888)	-
Total revenues, gains, and support	<u>2,717</u>	<u>782</u>	<u>3,499</u>	<u>1,928</u>	<u>(205)</u>	<u>1,721</u>	<u>1,365</u>	<u>1,431</u>	<u>2,796</u>
Expenses:									
General and administrative	800	-	800	597	-	597	587	-	587
Fund-raising events expenses	231	-	231	269	-	269	284	-	284
Donation to Pathways Hospice	85	-	85	75	-	75	65	-	65
Donations for Haiti Relief	-	-	-	9	-	9	-	-	-
Mitchell Scholarship	3	-	3	-	-	-	-	-	-
Beretta Scholarship	2	-	2	2	-	2	-	-	-
Donation to George Mark Children's House	-	-	-	-	-	-	20	-	20
Donation to Washington Township Health Care District	1,651	-	1,651	921	-	921	526	-	526
Total expenses	<u>2,572</u>	<u>-</u>	<u>2,572</u>	<u>1,873</u>	<u>-</u>	<u>1,873</u>	<u>1,482</u>	<u>-</u>	<u>1,482</u>
Increase (decrease) in net assets	145	782	927	53	(205)	(152)	(117)	1,431	1,314
Net assets, beginning of year	432	5,867	6,299	379	6,072	6,451	496	4,641	5,137
Net assets, end of year	<u>\$ 577</u>	<u>\$ 6,649</u>	<u>\$ 7,226</u>	<u>\$ 432</u>	<u>\$ 5,867</u>	<u>\$ 6,299</u>	<u>\$ 379</u>	<u>\$ 6,072</u>	<u>\$ 6,451</u>

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

Fiscal Year 2011 Revenue and Expense Analysis for the District

Net Patient Service Revenues

For the year ended June 30, 2011, net patient service revenues increased by \$50.6 million or 12%. The net increase resulted from an increase in patient days, higher surgical volumes and increased emergency room activities.

On July 1, 2010, the District acquired a controlling interest in the Washington Outpatient Surgery Center (WOSC). Also effective November 1, 2011, the Washington Township Medical Foundation (WTMF) began operations. Of the \$50.6 million of increase in net service revenue, \$17.5 million and \$8.3 million are attributable to the operations of WOSC and WTMF, respectively.

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

Inpatient Business Activity

The District's gross inpatient revenue increased 6.5% from \$1.38 billion in fiscal year 2010 to \$1.47 billion in fiscal year 2011. Total acute patient days (excluding newborns) increased by 2,854 from 63,579 to 66,433. The overall increase in inpatient revenue can be attributed to a higher level of patient days, and higher surgical and cardiac procedures.

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

Table 7
Inpatient Business Activity

<u>Specialty</u>	<u>2011 Days</u>	<u>2010 Days</u>	<u>% Change</u>
Medical/Surgical	51,086	47,645	7.2%
Critical Care	8,883	8,504	4.5%
Pediatrics	951	1,143	-16.8%
Obstetrics	5,513	6,287	-12.3%
Subtotal	66,433	63,579	4.5%
Newborn	4,285	4,818	-11.1%
Total	70,718	68,397	3.4%

The overall case mix index for the District, which is a measure of patient acuity, increased from 1.3751 in 2010 to 1.4370 in 2011.

Outpatient Business Activity

The District's gross outpatient revenue increased 16.5% in the current year, from \$416.7 million in fiscal year 2010 to \$485.5 million in fiscal year 2011. The increase was due primarily to increases in outpatient surgical volumes and outpatient cardiac procedures. \$26.3 million and \$17.9 million of the increase in the gross outpatient revenue were due to the addition of WOSC and WTMF, respectively.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 72.7% and 73.5% for fiscal years ended June 30, 2011 and 2010, respectively.

Charity Care

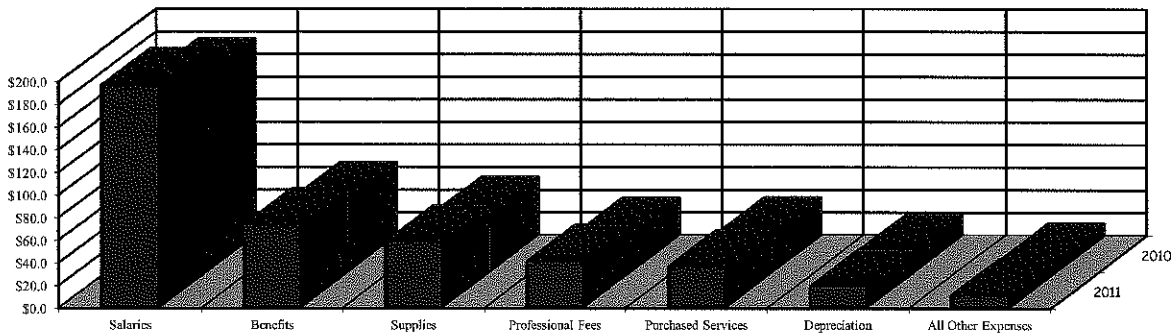
The District provides care without charge to patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$23.5 million and \$19.2 million in charges forgone related to charity care for patient services during fiscal years 2011 and 2010, respectively.

Provisions for Bad Debt

The provisions for bad debt and charity care (expressed as a percentage of gross revenues) was 3.50% in 2011 compared to 3.43% in 2010. Private Pay charges as a percentage of total gross charges were 5.7% and 5.8% for the fiscal years ended June 30, 2011 and 2010, respectively.

Operating Expenses

Total operating expenses were \$438.8 million and \$386.4 million for the years ended June 30, 2011 and 2010, respectively, as summarized in the graph below:



Salaries and Wages

Total District salaries and wages increased 13.5%, from \$173.9 million in 2010 to \$197.4 million in 2011. \$5.6 million and \$3.0 million of the increase in salaries and wages were attributable to the addition of WOSC and WTMF, respectively.

Total FTEs increased by 298 to 1,844 at June 30, 2011 from 1,546 at June 30, 2010, an increase of 19.2%. 69 and 96 of the increase in FTEs was due to the addition of WOSC and WTMF, respectively.

Approximately 66% of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various Memoranda of Understanding that have been approved by the District's Board of Directors.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

Employee Benefits

Overall, the District's benefits cost rose by 14.2%, from \$64.5 million at June 30, 2010 to \$73.7 million at June 30, 2011. The increase resulted from a higher level of full time equivalents, higher pension and health and welfare costs, and increased benefit utilization. \$1.9 million and \$0.9 million of the increase in employee benefits was the result of the addition of WOSC and WTMF, respectively.

Fiscal Year 2010 Revenue and Expense Analysis for the District

Net Patient Service Revenues

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

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

Inpatient Business Activity

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

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

Table 8
Inpatient Business Activity

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

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

Outpatient Business Activity

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Management's Discussion and Analysis

Years ended June 30, 2011 and 2010

Deductions from Revenue

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

Charity Care

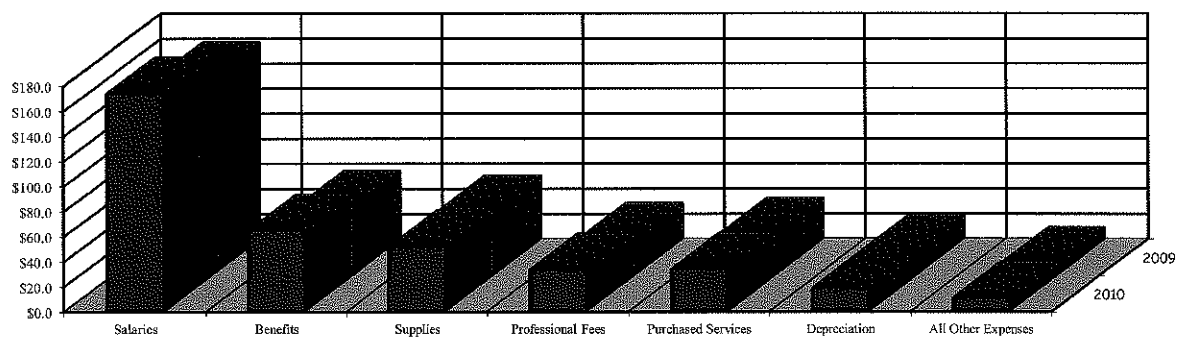
The District provides care without charge or at amounts less than established rates to patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$19.2 million and \$20.3 million in charges forgone related to charity care for patient services during fiscal years 2010 and 2009, respectively.

Provisions for Bad Debt

The provisions for bad debt and charity care (expressed as a percentage of gross revenues) was 3.43% in 2010 compared to 3.41% in 2009. Private Pay charges as a percentage of total gross charges were 5.8% and 4.0% for the fiscal years ended June 30, 2010 and 2009, respectively.

Operating Expenses

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



Salaries and Wages

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

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

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Management's Discussion and Analysis

Years ended June 30, 2011 and 2010

Employee Benefits

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

Fiscal Year 2011 Revenue and Expense Analysis for the Foundation

Contributions and Contributed Services

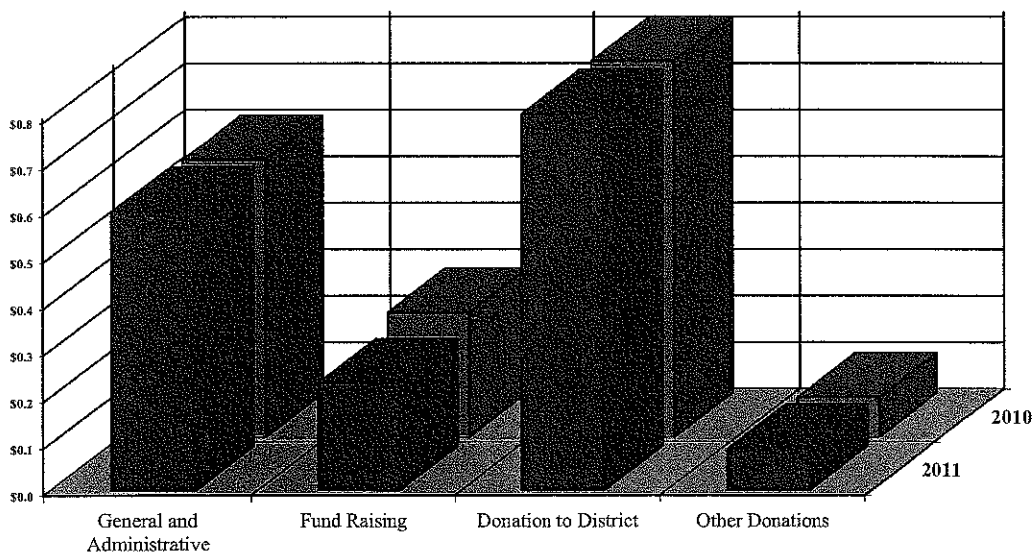
Total contributions and pledges increased 128.6% from \$1.4 million in 2010 to \$3.2 million in 2011. The capital campaign to raise funds for construction of the new Critical Care Pavilion and Center for Joint Replacement continued to generate a significant portion of the contribution revenue.

Fund Raising Events

Total fund raising revenue decreased in the current year by 25.7%, from \$237 thousand in 2010 to \$176 thousand in 2011. The major fund raising activities for 2011 were the annual golf tournament, the Tree of Angels and the annual Top Hat dinner and dance.

Expenses

Total expenses for the Foundation were \$2.6 million and \$1.9 million for fiscal years ended June 30, 2011 and 2010, respectively, as summarized in the graph below:



WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Management's Discussion and Analysis

Years ended June 30, 2011 and 2010

Fiscal Year 2010 Revenue and Expense Analysis for the Foundation

Contributions and Contributed Services

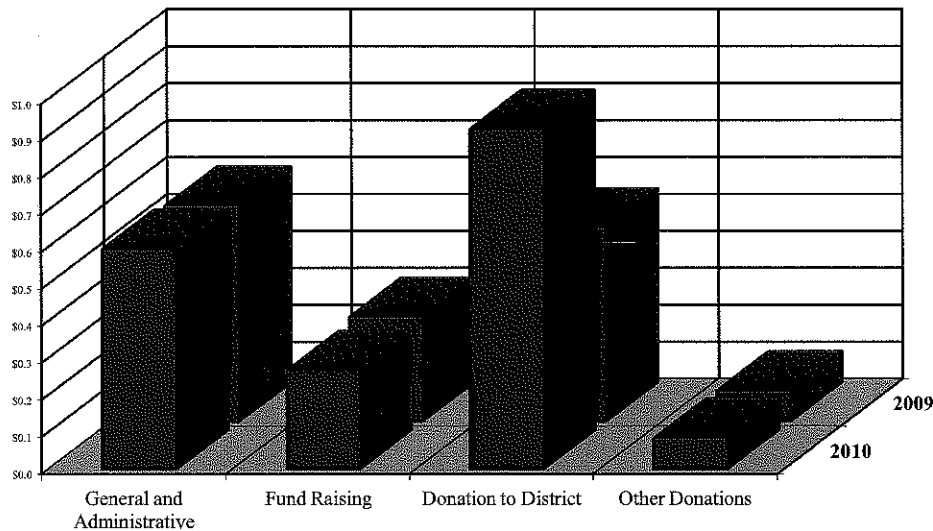
Total contributions and pledges decreased 46.2%, from \$2.6 million in 2009 to \$1.4 million in 2010. The decrease in the current year can be primarily attributed to several very large gifts received in 2009 that were not repeated in the current year. The capital campaign to raise funds for construction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

Fund Raising Events

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

Expenses

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



WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Management's Discussion and Analysis
Years ended June 30, 2011 and 2010

Economic Factors Affecting Next Year

The District's Board of Directors approved the fiscal year 2011-2012 operating budget at their June 2011 meeting. The operating budget was developed after a review of key volume indicators and trends. The budget incorporates the District's current Institutional Agenda as well as economic factors, such as estimated population growth and unemployment rates.

During fiscal year 2010-2011 the District issued new revenue bonds to fund major construction projects. The proceeds of these bonds will be used to fund construction of new buildings that will house the Center for Joint Replacement and Central Utility Plant as well as a new electronic medical records system. During fiscal year 2011-2012, the District will record increased capital expenditures and operating expenses related to these projects.

The Fiscal Year 2012 budget also anticipates decreases in reimbursement from the Medicare and Medicaid programs, as well as an increase in uncompensated care arising from an increase in uninsured patients as challenges in the U.S. economy and resulting unemployment continue. While estimates of the impact of these factors have been included in the budget, the final outcome is uncertain and may vary significantly dependent upon legislative actions at both the State and Federal level and economic performance during the year.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Balance Sheets
June 30, 2011 and 2010

Assets	District		Foundation	
	2011	2010	2011	2010
Current assets:				
Cash and cash equivalents	\$ 13,778,000	\$ 12,398,000	\$ 313,000	\$ 898,000
Short-term investments	17,543,000	13,996,000	1,101,000	958,000
Short-term investments held by District on behalf of Foundation	-	-	3,783,000	3,700,000
Patient accounts receivable, less allowance for estimated uncollectibles of \$43,852,000 and \$35,865,000 in 2011 and 2010, respectively	66,315,000	51,684,000	-	-
Contributions receivable, net, due in less than 1 year	-	-	487,000	50,000
Supplies	2,736,000	2,597,000	-	-
Prepaid expenses and other	8,338,000	12,305,000	14,000	15,000
Total current assets	108,710,000	92,980,000	5,698,000	5,621,000
Long-term investment and restricted funds:				
Board designated for capital, debt and workers' compensation	199,613,000	205,720,000	-	-
Board designated for pension funding	69,403,000	45,882,000	-	-
Held by trustee	111,371,000	96,130,000	-	-
Restricted funds	2,800,000	2,804,000	-	-
Capital assets, net	315,564,000	260,461,000	-	-
Other assets:				
Prepaid pension costs	-	1,468,000	-	-
Contributions receivable, net, due in more than 1 year	-	-	1,528,000	681,000
Unamortized bond issuance costs and other	3,732,000	3,186,000	-	-
Goodwill	9,899,000	-	-	-
Other noncurrent asset	14,843,000	7,607,000	-	-
Total assets	\$ 835,935,000	\$ 716,238,000	\$ 7,226,000	\$ 6,302,000
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	\$ 8,090,000	\$ 3,290,000	\$ -	\$ -
Accounts payable and accrued expenses	22,813,000	25,300,000	-	3,000
Due to Foundation	3,783,000	3,700,000	-	-
Due to government agencies	2,964,000	10,019,000	-	-
Accrued liabilities:				
Payroll related	8,491,000	15,483,000	-	-
Vacation	14,115,000	12,856,000	-	-
Health benefits	3,501,000	3,619,000	-	-
Interest	7,611,000	6,089,000	-	-
Other	10,140,000	6,715,000	-	-
Total current liabilities	81,508,000	87,071,000	-	3,000
Long-term liabilities:				
Workers' compensation claims	7,342,000	6,787,000	-	-
Liability for Pension cost	14,223,000	-	-	-
Post-retirement employee medical benefits	27,362,000	25,133,000	-	-
Long-term debt, net of current maturities	225,906,000	168,597,000	-	-
Long-term debt, general obligation bonds	66,241,000	71,913,000	-	-
Total long-term liabilities	341,074,000	272,430,000	-	-
Total liabilities	422,582,000	359,501,000	-	3,000
Net assets:				
Invested in capital assets, net of related debt	129,415,000	114,963,000	-	-
Restricted - expendable	2,800,000	2,804,000	6,649,000	5,867,000
Reserved for Minority Interest	5,646,000	-	-	-
Unrestricted	275,492,000	238,970,000	577,000	432,000
Total net assets	413,353,000	356,737,000	7,226,000	6,299,000
Total liabilities and net assets	\$ 835,935,000	\$ 716,238,000	\$ 7,226,000	\$ 6,302,000

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2011 and 2010

	District		Foundation	
	2011	2010	2011	2010
Operating revenues:				
Net patient service revenues	\$ 464,021,000	\$ 413,469,000	\$ -	\$ -
Other	9,889,000	13,178,000	-	-
Contributions	1,651,000	921,000	2,551,000	743,000
Contributed services	-	-	608,000	639,000
Fund raising events	-	-	176,000	237,000
Total operating revenues	<u>475,561,000</u>	<u>427,568,000</u>	<u>3,335,000</u>	<u>1,619,000</u>
Operating expenses:				
Salaries and wages	197,387,000	173,857,000	-	-
Employee benefits	73,681,000	64,515,000	-	-
Supplies	58,659,000	51,761,000	-	-
Professional fees	41,485,000	33,246,000	-	-
Purchased services	36,723,000	33,713,000	-	-
Depreciation	19,307,000	18,490,000	-	-
Insurance	2,260,000	1,772,000	-	-
Fund raising expenses	-	-	231,000	269,000
Donations	-	-	1,741,000	1,007,000
Other operating expenses	9,296,000	9,036,000	600,000	597,000
Total operating expenses	<u>438,798,000</u>	<u>386,390,000</u>	<u>2,572,000</u>	<u>1,873,000</u>
Operating income	<u>36,763,000</u>	<u>41,178,000</u>	<u>763,000</u>	<u>(254,000)</u>
Non-operating revenues and expenses:				
Investment income	6,973,000	6,552,000	31,000	51,000
Net increase/(decrease) in the fair value of investments	949,000	8,264,000	133,000	51,000
Interest expense, including amortization of bond issuance costs and discount on bonds payable	(1,527,000)	(3,047,000)	-	-
Property tax revenue	8,203,000	3,785,000	-	-
Other non-operating income	1,726,000	293,000	-	-
Total non-operating revenues and expenses	<u>16,324,000</u>	<u>15,847,000</u>	<u>164,000</u>	<u>102,000</u>
Increase in net assets before Other Changes	53,087,000	57,025,000	927,000	(152,000)
Release of restricted funds	(4,000)	-	-	-
Minority Interest	3,533,000	-	-	-
Increase in net assets after Other Changes	56,616,000	57,025,000	927,000	(152,000)
Total net assets, beginning of year	<u>356,737,000</u>	<u>299,712,000</u>	<u>6,299,000</u>	<u>6,451,000</u>
Total net assets, end of year	<u>\$ 413,353,000</u>	<u>\$ 356,737,000</u>	<u>\$ 7,226,000</u>	<u>\$ 6,299,000</u>

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Statements of Cash Flows
Years ended June 30, 2011 and 2010

	District		Foundation	
	2011	2010	2011	2010
Cash flows from operating activities:				
Cash received from patient service activities	\$ 453,354,000	\$ 407,343,000	\$ -	\$ -
Other cash receipts	11,540,000	14,099,000	1,451,000	1,396,000
Cash payments to suppliers	(144,126,000)	(110,174,000)	(321,000)	(1,372,000)
Cash payments to employees	(277,613,000)	(232,636,000)	-	-
Net cash provided by operating activities	43,155,000	78,632,000	1,130,000	24,000
Cash flows from non-capital financing activities:				
Donation from Foundation to District	1,651,000	1,032,000	(1,651,000)	(1,032,000)
Grant to Alameda County Health Care Services	-	-	-	-
Net cash provided by/(used in) non-capital financing activities	1,651,000	1,032,000	(1,651,000)	(1,032,000)
Cash flows from capital and related financing activities:				
Purchases of capital assets	(60,459,000)	(65,645,000)	-	-
Principal paid on debt	(3,290,000)	(8,610,000)	-	-
Interest paid on debt	(12,962,000)	(8,728,000)	-	-
Sale of net assets to Minority shareholders in Washington Outpatient Surgery Center	4,882,000	-	-	-
Net assets distributed to Minority shareholders in Washington Outpatient Surgery Center	(1,349,000)	-	-	-
Proceeds from debt issuance	59,294,000	79,400,000	-	-
Proceeds from property taxes levied by the County	8,280,000	4,129,000	-	-
Net cash provided by/(used in) capital and related financing activities	(5,604,000)	546,000	-	-
Cash flows from investing activities:				
Purchases of investments	(283,296,000)	(240,620,000)	(585,000)	(411,000)
Sales of investments	248,047,000	160,659,000	490,000	1,977,000
Investment income	7,012,000	6,807,000	31,000	51,000
Purchase of interest in joint venture	(10,800,000)	(1,015,000)	-	-
Other non-operating income received	1,215,000	846,000	-	-
Net cash provided by/(used in) investing activities	(37,822,000)	(73,323,000)	(64,000)	1,617,000
Net increase/(decrease) in cash and cash equivalents	1,380,000	6,887,000	(585,000)	609,000
Cash and cash equivalents at beginning of year	12,398,000	5,511,000	898,000	289,000
Cash and cash equivalents at end of year	\$ 13,778,000	\$ 12,398,000	\$ 313,000	\$ 898,000
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 36,763,000	\$ 41,178,000	\$ 927,000	\$ (254,000)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	19,307,000	18,490,000	-	-
Provision for doubtful accounts and charity care	68,400,000	61,661,000	-	-
Changes in assets and liabilities:				
Accounts receivables	(79,067,000)	(67,787,000)	339,000	417,000
Supplies, prepaid expenses, and other current assets	3,895,000	(2,516,000)	-	2,000
Other assets	(5,768,000)	9,666,000	(133,000)	-
Due to Foundation	82,000	(544,000)	-	-
Due from/to government agencies	(7,055,000)	4,913,000	-	-
Accounts payable and accrued expenses	(3,543,000)	4,702,000	(3,000)	(141,000)
Payroll, vacation, and health accrued liabilities	(6,545,000)	5,736,000	-	-
Other liabilities	16,686,000	3,133,000	-	-
Net cash provided by operating activities	\$ 43,155,000	\$ 78,632,000	\$ 1,130,000	\$ 24,000
Non-cash transactions				
Capitalized interest	\$ 12,791,000	\$ 7,571,000	\$ -	\$ -
Accounts payable and accrued expenses for property and equipment purchases	\$ 8,453,000	\$ 8,876,000	\$ -	\$ -
Contributed services	\$ -	\$ -	\$ 608,000	\$ 639,000

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2011 and 2010

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization*

District

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

The District is the sole corporate member of Washington Township Hospital Development Corporation (DEVCO). DEVCO was formed in 1984 to train medical personnel, develop medical treatment programs, perform medical research and development, and render medical services to the general public. The DEVCO Board is appointed by the District's Board. DEVCO contractually operates a radiation oncology center and a surgery center. DEVCO also operates an outpatient rehabilitation center and a primary care clinic. On July 1, 2010, DEVCO purchased a controlling interest in the Washington Outpatient Surgery Center (WOSC) and has blended its financial statements since this date. DEVCO is considered a component unit of the District, and is blended in the District's financial statements because its services exclusively benefit the District.

DEVCO is the sole corporate member of Washington Township Medical Foundation (WTMF). WTMF was formed on January 1, 2011 to operate a multi-specialty medical clinic under the applicable provisions of the California Health and Safety Code. WTMF is considered a component unit of the District, and is blended in the District's financial statements because its services exclusively benefit the District.

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

Foundation

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(b) Accounting Standards

District

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

Foundation

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

(c) Use of Estimates

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

(d) Proprietary Fund Accounting

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

(e) Cash and Cash Equivalents

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

(f) Contributed Services

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(g) Contributions Received

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

(h) Promises to Give

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

(i) Donations Granted

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

(j) Supplies

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

(k) Long-Term Investment and Restricted Funds

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(l) Capital Assets

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

Depreciable lives by property classification are as follows:

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

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

(m) Business Combinations and Goodwill

Business combinations are accounted for under the Purchase Accounting Method. The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires the District to make estimates and use valuation techniques when market value is not readily available. Any excess of purchase price over the fair value of the tangible and intangible assets acquired is allocated to goodwill at year-end.

Goodwill is tested for impairment annually or more frequently if changing circumstances warrant.

(n) Risk Management

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

(o) Self-Insurance Plans

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

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

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

(p) Net Assets

District

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

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

Reserved for Minority Interest - Net assets of legally separate organization attributable to other participants. In July 2010, the District acquired Washington Outpatient Surgery Center (WOSC) and concurrently sold a minority interest in WOSC to area physicians. No gain on sale was recognized upon the sale of the minority interest. During 2011, the year, WOSC earned operating income of approximately \$4.8 million. The District has distributed a portion of the minority interest's share of earnings in 2011 and will distribute the remainder in 2012.

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

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

Expendable – Net assets whose use by the District is subject to externally-imposed restrictions that can be fulfilled by actions of the District pursuant to those restrictions or that expire by the passage of time.

Nonexpendable – Net assets subject to externally-imposed restrictions that they be retained in perpetuity by the District. There were no such assets as of June 30, 2011 and 2010.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

Foundation

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

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

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

(q) Concentrations of Credit Risk

District

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

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

The District’s concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the District’s patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Reimbursements from the Medicare program accounted for approximately 21% and 20% of the District’s net patient service revenues for the fiscal years ended June 30, 2011 and 2010, respectively. Medicare, Medi-Cal, Blue Cross and Blue Shield are the only payors that represent more than 10% of the District’s net patient accounts receivable as of June 30, 2011. The District maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

Foundation

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

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

The Foundation maintains an allowance for uncollectible pledges based on the expected collectibility of pledges. The Foundation had 84 donor pledges, with the largest individual pledge representing approximately 69% of the total, as of June 30, 2011. The Foundation

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

had 370 donor pledges, with the largest individual pledge representing approximately 19% of the total, as of June 30, 2010.

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

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

(s) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Reimbursement from third-party payors under various methodologies is based on the level of care provided. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Amounts received in 2011 and 2010 related to prior years, including adjustments to prior year estimates, increased net patient service revenues approximately \$6,300,000 and \$2,183,000, respectively.

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

(t) Charity Care

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

(u) Other Revenue

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

(v) Interest Income and Expense

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

(w) Impairment of Long-Lived Assets

In accordance with GASB Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the District is required to evaluate prominent events or changes in circumstances to determine whether an impairment loss should be

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

recorded and that any insurance recoveries be netted with the impairment loss. Based on management's evaluation, there were no impairment losses in 2011 and 2010.

(x) Income Taxes

District

The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. However, income from the unrelated business activities of the District may be subject to income taxes.

Foundation

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

(y) Property Tax Revenue

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

(z) New Accounting Pronouncements

District

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent-multiple other post employment benefit (OPEB) plans. The requirements in this Statement allow more agent employers to use the alternatives measurement method to produce actuarially based information for purposes of financial reporting. This standard was issued in December 2009 and is effective for periods beginning after June 15, 2011. This standard did not have any effect on the financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pool for which improve financial reporting by providing more complete information, by providing consistency of measurements, and by providing clarifications of existing standards. This standard was issued in June 2010 and is effective for the period beginning after June 15, 2010. This standard did not have any effect on the financial statements.

GASB Statement No. 61, *The Financing Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. This standard was issued in November 2010 and is effective for periods beginning after June 15, 2012. We are currently evaluating the effect

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

of this standard on the financial statements however; management does not believe this will have a material impact on the financial statements.

GASB Statement 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is includes pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This statement was issued in January 2010 and is effective for periods beginning after December 15, 2011. We are currently evaluating the effect of this standard on the financial statements.

Foundation

There were no new FASB accounting pronouncements during the year which impacted the Foundation's financial statements.

(2) Patient Revenues

Patient revenues consist of the following:

	<u>2011</u>	<u>2010</u>
Gross patient revenues:		
Routine inpatient services	\$ 395,240,000	\$ 371,644,000
Ancillary inpatient services	1,073,057,000	1,006,950,000
Outpatient services	485,486,000	416,663,000
	<u>1,953,783,000</u>	<u>1,795,257,000</u>
Deductions from gross patient revenues:		
Contractual allowances for statutory and negotiated rates	1,421,363,000	1,320,127,000
Provision for doubtful accounts	44,909,000	42,435,000
Charity care	23,490,000	19,226,000
	<u>1,489,762,000</u>	<u>1,381,788,000</u>
Net patient service revenues	<u>\$ 464,021,000</u>	<u>\$ 413,469,000</u>

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2011 and 2010

years through June 30, 2009 and finalized by the Medicare fiscal intermediary for all fiscal years through June 30, 2005. Services provided to Medi-Cal program beneficiaries are reimbursed at negotiated per-diem rates.

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

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances, which represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Receivables for patient care are also reduced for allowances for uncollectible accounts.

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

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

State of California Assembly Bill ("AB") 1383 of 2009, as amended by as amended by AB 1653 on September 8, 2010, established a series of Medicaid supplemental payments funded through a "Quality Assurance Fee" and a "Hospital Fee Program", which are imposed on certain California hospitals. The effective date of the Hospital Fee Program is April 1, 2009 through December 31, 2010 and is predicated, in part, on the enhanced Federal Medicaid Assistance Percentage ("FMAP") contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program makes supplemental payments to hospitals for various health care services and supports the state's effort to maintain health care coverage for children. The District, designated as a public hospital, is exempt from paying the "Quality Assurance Fee"; however, the District received supplemental payments under the Hospital Fee Program. For the year ended June 30, 2011, the District received \$2,620,000, which has been reported as net patient revenue.

State of California Assembly Bill 915, *Public Hospital Outpatient Services Supplemental Reimbursement Program*, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's certified public expenditures ("CPE"), which are matched with federal Medicaid funds. For the years ended June 30, 2011 and 2010, the District recorded revenue of \$1,299,000 and \$1,082,000, respectively.

State of California Senate Bill 1732 ("SB 1732") provides for supplemental Medi-Cal reimbursement to disproportionate share hospitals for costs (i.e., principal and interest) of qualified patient care capital construction. The amounts payable are related to the reimbursement of costs for certain debt financed construction projects based on the District's Medi-Cal utilization rate. For the years ended June 30, 2011 and 2010, the District was not eligible under this program as the District's Medi-Cal utilization was lower than 42.4 percent. To be eligible, the utilization should be 42.4 or higher.

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

	<u>2011</u>	<u>2010</u>
Medicare	\$ 921,798,000	\$ 838,906,000
Medi-Cal	188,420,000	180,582,000
PPO, HMO and others	733,181,000	670,961,000
Private pay and industrial indemnity	<u>110,384,000</u>	<u>104,808,000</u>
	<u>\$ 1,953,783,000</u>	<u>\$ 1,795,257,000</u>

(3) Charity Care

The District maintains records to identify and monitor the level of direct charity care it provides. For the years ended June 30, 2011 and 2010, net patient service revenues excludes charges forgone for charity care services and supplies of approximately \$23,490,000 and \$19,226,000, respectively. In addition, the estimated cost in excess of reimbursement for indigent patients under publically sponsored programs was \$44 million and \$42 million respectively.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(4) Contributions Receivable

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

	<u>2011</u>	<u>2010</u>
Critical Care Pavilion	\$ 1,512,000	\$ 487,000
Center for Joint Replacement	172,000	258,000
Other	<u>486,000</u>	<u>50,000</u>
Contributions receivable before unamortized discount and allowance for uncollectibles	2,170,000	795,000
Less: Allowance for uncollectibles	(41,000)	(35,000)
Less: Unamortized discount	<u>(114,000)</u>	<u>(29,000)</u>
Net contributions receivable	<u>\$ 2,015,000</u>	<u>\$ 731,000</u>
Amounts due in:		
Less than 1 year	\$ 487,000	\$ 50,000
1 to 3 years	<u>1,683,000</u>	<u>745,000</u>
Total	<u>\$ 2,170,000</u>	<u>\$ 795,000</u>

The value of contributions receivable represents the Foundation's expected future cash flows from each pledge. For the years ended June 30, 2011 and 2010, the Foundation used a discount rate of 6% which management estimates represents the risk free rate adjusted for the risk of donor default.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(5) Temporarily Restricted Net Assets

District

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

Foundation

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

	<u>2011</u>	<u>2010</u>
Critical Care Pavilion	\$ 4,244,000	\$ 2,743,000
Center for Joint Replacement	686,000	1,237,000
Magnet Status Grants	-	419,000
Health-related services	787,000	584,000
Emergency room and critical care	306,000	305,000
Other activities	369,000	426,000
Education and professional recognition	39,000	39,000
Surgical	79,000	79,000
Childbirth and family services	32,000	32,000
Pathways Hospice	107,000	3,000
Total	<u>\$ 6,649,000</u>	<u>\$ 5,867,000</u>

(6) Related-Party Transactions

The District held \$3,783,000 and \$3,700,000 as of June 30, 2011 and 2010, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated \$1,651,000 and \$1,032,000 to the District for the fiscal years ended June 30, 2011 and 2010, respectively.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(7) Long-Term Investment and Restricted Funds

District

As of June 30, 2011 and 2010, investment and restricted funds, at fair value, have been set aside as follows:

	<u>2011</u>	<u>2010</u>
Board designated funds:		
Funded depreciation	\$ 206,054,000	\$ 208,785,000
Pension funding	69,403,000	45,882,000
Workers' compensation fund	11,102,000	10,931,000
Funds held by trustee under bond indenture	111,371,000	96,130,000
Restricted funds	<u>2,800,000</u>	<u>2,804,000</u>
Total funds	400,730,000	364,532,000
Short-term investments – required for current liabilities	<u>(17,543,000)</u>	<u>(13,996,000)</u>
Total long-term investment and restricted funds	<u>\$ 383,187,000</u>	<u>\$ 350,536,000</u>

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	15 years	100%	none
U.S. Agency Securities	15 years	100%	none
State of California or local agency obligations	15 years	100%	none
LAIF (State Pool Demand Deposits)	N/A	As permitted by law	\$50,000,000
Corporate Bonds	10 years *	30%	none
Certificates of deposit	1 year	20%	none
Repurchase agreements	1 year	N/A	\$4,000,000
Bankers acceptances	270 days	40%	none
Commercial Paper	180 days	30%	none
Mutual Funds	N/A	15%	none

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

As of June 30, 2011 the District had the following investments with maturities as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 108,455,000	\$ 21,495,000	\$ 34,027,000	\$ 52,884,000	\$ 49,000
U.S. Agencies	41,666,000	3,052,000	23,601,000	10,324,000	4,689,000
Corporate Bonds	89,211,000	7,372,000	71,228,000	1,772,000	8,839,000
LAIF (State Pool Demand Deposits)	39,451,000	39,451,000	-	-	-
Money Market and Mutual Funds	121,947,000	121,947,000	-	-	-
Total Investments	\$ 400,730,000	\$ 193,317,000	\$ 128,856,000	\$ 64,980,000	\$ 13,577,000

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

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

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

Interest Rate Risk

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

Credit Risk

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

The District's investments at June 30, 2011 are rated as follows:

Investment Type	Fair Value	Ratings
U.S. Treasuries	\$ 108,455,000	Not rated
U.S. Agencies	41,666,000	Not rated
Corporate Bonds	89,211,000	See below
Local Agency Investment Fund	39,451,000	Not rated
Money Market and Mutual Funds	121,947,000	Not rated
	<u>\$ 400,730,000</u>	

Corporate Bonds Rating	Amount
AAA	\$ 19,361,000
AA+	6,077,000
AA	6,986,000
AA-	8,378,000
A+	15,686,000
A	22,594,000
A-	10,129,000
	<u>\$ 89,211,000</u>

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

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

Foundation

Investments as of June 30, 2011 and 2010, at fair value are summarized below:

	<u>2011</u>	<u>2010</u>
Money market and certificates of deposit	\$ 519,000	\$ 519,000
Equity mutual fund	582,000	439,000
Local Agency Investment Funds held by District on behalf of Foundation	<u>3,783,000</u>	<u>3,700,000</u>
	<u>\$ 4,884,000</u>	<u>\$ 4,658,000</u>

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(8) Capital Assets

Capital assets activity for the year ended June 30, 2011 consisted of the following:

	Beginning balance, June 30, 2010	Increases	Decreases	Ending balance, June 30, 2011
Capital assets, not being depreciated				
Land	\$ 10,482,000	\$ -	\$ -	\$ 10,482,000
Construction in progress	118,613,000	67,348,000	(2,251,000)	183,710,000
Total capital assets not being depreciated	<u>129,095,000</u>	<u>67,348,000</u>	<u>(2,251,000)</u>	<u>194,192,000</u>
Capital assets being depreciated:				
Land improvements	7,399,000	128,000	-	7,527,000
Buildings	174,669,000	811,000	-	175,480,000
Fixed and moveable equipment	169,876,000	8,757,000	-	178,633,000
Total capital assets being depreciated	<u>351,944,000</u>	<u>9,696,000</u>	<u>-</u>	<u>361,640,000</u>
Less accumulated depreciation:				
Land improvements	(5,561,000)	(305,000)	-	(5,866,000)
Buildings	(92,254,000)	(6,381,000)	-	(98,635,000)
Fixed and movable equipment	(122,763,000)	(13,004,000)	-	(135,767,000)
Total accumulated depreciation	<u>(220,578,000)</u>	<u>(19,690,000)</u>	<u>-</u>	<u>(240,268,000)</u>
Total capital assets being depreciated, net	<u>131,366,000</u>	<u>(9,994,000)</u>	<u>-</u>	<u>121,372,000</u>
Total capital assets, net	<u>\$ 260,461,000</u>	<u>\$ 57,354,000</u>	<u>\$ (2,251,000)</u>	<u>\$ 315,564,000</u>

At June 30, 2011, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$26.6 million.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

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

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

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

	2011	2010
Change in accumulated depreciation:		
Operating depreciation expense	\$ 19,307,000	\$ 18,490,000
Non-operating depreciation expense	383,000	553,000
Disposal of fixed assets	-	(4,000)
Total increase in accumulated depreciation	\$ 19,690,000	\$ 19,039,000

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2011 and 2010

(9) Long-Term Debt

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

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

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

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

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

The District issued revenue bonds in November 2010 to provide funds for construction, renovations and expansion of space for medical use. The funds will also be used for the purchase of additional medical equipment and expansion of other service areas around the Hospital campus. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of Union Bank of California (Trustee), as defined in the Series indentures.

The District is also required to meet certain covenants, the most restrictive of which is related to debt service coverage. The District has agreed to maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. The District was in compliance with these covenants as of June 30, 2011 and 2010, maintaining debt service coverage ratios of 2.4 to 1.0 and 3.0 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

The carrying amount of the District's long-term debt approximates fair value as of June 30, 2011 and 2010.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

A summary of revenue bond and general obligation bond activity for the year ended June 30, 2011 as follows:

<u>Bonds payable</u>	<u>Beginning balance, June 30, 2010</u>	<u>Additions</u>	<u>Amortization/ Other</u>	<u>Repayments</u>	<u>Ending balance, June 30, 2011</u>	<u>Due within one year</u>
2010 Series Revenue Bonds principal and interest (at 4.0%) payable semiannually	\$ -	\$ 60,725,000	\$ -	\$ -	\$ 60,725,000	\$ -
Less issuance discounts	-	(626,000)	(52,000)	-	(678,000)	-
Total 2010 Series Revenue Bonds Payable	-	60,099,000	(52,000)	-	60,047,000	-
2009 Series Revenue Bonds, principal and interest (at 4.5%) payable semiannually	55,000,000	-	-	-	55,000,000	815,000
Less issuance discounts	(928,000)	-	25,000	-	(903,000)	-
Total 2009 Series Revenue Bonds Payable	54,072,000	-	25,000	-	54,097,000	815,000
2009 General Obligation Bonds principal and interest (at 6.0%) payable semiannually	25,000,000	-	-	-	25,000,000	3,360,000
Plus issuance premiums	1,089,000	-	(447,000)	-	642,000	-
Total 2009 General Obligation Bonds Payable	26,089,000	-	(447,000)	-	25,642,000	3,360,000
2007 Series Revenue Bonds, principal and interest (at 4.125%) payable semiannually	78,145,000	-	-	(815,000)	77,330,000	850,000
Less issuance discounts	(1,557,000)	-	146,000	-	(1,411,000)	-
Total 2007 Series Revenue Bonds Payable	76,588,000	-	146,000	(815,000)	75,919,000	850,000
2006 General Obligation Bonds principal and interest (at 4.0%) payable semiannually	46,690,000	-	-	(1,265,000)	45,425,000	1,795,000
Plus issuance premiums	399,000	-	(70,000)	-	329,000	-
Total 2006 General Obligation Bonds Payable	47,089,000	-	(70,000)	(1,265,000)	45,754,000	1,795,000
1999 Series Revenue Bonds, principal and interest (at 5.0%) payable semiannually	40,265,000	-	-	(1,210,000)	39,055,000	1,270,000
Less issuance discounts	(303,000)	-	26,000	-	(277,000)	-
Total 1999 Series Revenue Bonds Payable	39,962,000	-	26,000	(1,210,000)	38,778,000	1,270,000
Total long-term debt payable	\$ 243,800,000	\$ 60,099,000	\$ (372,000)	\$ (3,290,000)	\$ 300,237,000	\$ 8,090,000

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

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

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

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

<u>Bond Issue</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>2011 Effective Interest Rate</u>
2010 Series Revenue Bonds	\$ 60,725,000	7/1/2038	5.4%
2009 General Obligation Bonds	\$ 25,000,000	8/1/2039	5.8%
2009 Series Revenue Bonds	\$ 55,000,000	7/1/2039	6.1%
2007 Series Revenue Bonds	\$ 79,645,000	7/1/2037	5.0%
2006 General Obligation Bonds	\$ 60,000,000	8/1/2036	4.4%
1999 Series Revenue Bonds	\$ 49,725,000	7/1/2029	5.1%

The long-term debt amortization requirements as of June 30, 2011, excluding amortization of discounts and premiums on bonds payable, are as follows:

	<u>Total long-term debt</u>	
	<u>Principal</u>	<u>Interest</u>
June 30:		
2012	\$ 8,090,000	\$ 15,600,000
2013	9,485,000	15,162,000
2014	9,945,000	14,692,000
2015	9,915,000	14,181,000
2016	5,895,000	13,764,000
2017 - 2021	34,125,000	64,015,000
2022 - 2026	43,740,000	54,156,000
2027 - 2031	56,245,000	41,303,000
2032 - 2036	72,580,000	24,529,000
2037 - 2041	52,515,000	4,965,000
	<u>\$ 302,535,000</u>	<u>\$ 262,367,000</u>

Components of interest expense include the following:

	<u>2011</u>	<u>2010</u>
Total interest cost	\$ 14,357,000	\$ 10,873,000
Capitalized interest expense	(12,830,000)	(7,826,000)
Net interest expense	<u>\$ 1,527,000</u>	<u>\$ 3,047,000</u>
Capitalized investment income	<u>\$ 39,000</u>	<u>\$ 289,000</u>

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

(10) Employee Benefit Plans

(a) Defined Benefit Retirement Plan

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

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

The District's annual pension cost, which is a measure of the periodic cost of the District's participation in the Defined Benefit Retirement Plan, and net pension obligation, which is the amount recognized by the District for pension expense that is greater than contributions to the Defined Benefit Retirement Plan were as follows:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 15,683,000	\$ 12,594,000
Interest on net pension asset	(110,000)	(1,060,000)
Adjustment to annual required contribution	<u>118,000</u>	<u>1,142,000</u>
Annual pension cost	15,691,000	12,676,000
Contributions made	<u>-</u>	<u>-</u>
Decrease to net pension asset	(15,691,000)	(12,676,000)
Net pension prepaid balance, beginning of period	<u>1,468,000</u>	<u>14,144,000</u>
Net pension (obligations)/prepaid balance, end of period	<u>\$ (14,223,000)</u>	<u>\$ 1,468,000</u>

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2011 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation/(Asset)</u>
2009	\$ 10,095,000	84.20%	\$ (14,144,000)
2010	12,676,000	0.00%	(1,468,000)
2011	15,691,000	0.00%	14,223,000

For the fiscal year ended June 30, 2011 the District Board has designated \$22,000,000 for contribution to the plan. Had the District made this contribution, 140.2% of the annual pension cost would have been funded. For the fiscal year ended June 30, 2010 and June 30, 2009 the District Board had designated \$22,000,000 for contribution to the plan. The District Board had also designated \$22,129,000 for contribution to the plan for the year ended June 30, 2009.

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

	<u>2011</u>	<u>2010</u>
Pension expense	\$ 15,691,000	12,676,000
Employer contributions	-	-
Benefits paid	6,566,000	5,579,000

The following table summarizes the funding status of the Defined Benefit Retirement Plan:

<u>Fiscal year:</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial liability (AAL) – projected unit credit (b)</u>	<u>Assets in excess/ (shortfall) of AAL (a-b)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>Assets in excess/ (shortfall) of AAL as a percentage of covered payroll ((a – b)/c)</u>
2009	\$111,467,000	\$161,714,000	-\$50,247,000	68.9%	\$104,827,000	-47.9%
2010	106,519,000	179,398,000	-72,879,000	59.4%	121,053,000	-60.2%
2011	103,767,000	204,612,000	-100,845,000	50.7%	131,700,377	-76.6%

For the fiscal year ended June 30, 2011, the District Board has set aside \$22,000,000 for the plan but has not made the contribution pending a review of the plan's asset allocation. This amount is in addition to the \$22,000,000 set aside for the fiscal year ended June 30, 2010. This additional funding has not been reflected in the actuarial estimates of the pension plan's funding, liabilities or costs. If these amounts were funded to the plan at June 30, 2011, the market value and actuarial value of plan assets would be increased by \$68,350,000 and \$46,350,000, respectively. The funded ratio for the plan would be 75% at June 30, 2011.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

The following table summarizes the actuarial assumptions used to determine Defined Benefit Retirement Plan liabilities as of June 30, 2011:

Valuation Date	July 1, 2011
Measurement Date	January 1, 2011
Actuarial Cost Method	Projected Unit Credit
Amortizing Method	15 year open
Remaining Amortization Period	15 year open
Asset Valuation Method	3-year deferrals of gains and losses
Actuarial Assumptions	
Investment Rate of Return	7.50%
Projected Salary Increases	5.00%
Cost-of-living Adjustments	3.00%

The District has a Deferred Compensation Plan available to employees. Generally, any employee is eligible and voluntarily enters into an agreement with the District to defer current wages at amounts limited by federal law. Effective January 1, 2010 the District matched participant contributions to a maximum of 1.5% of gross earnings. Under these agreements, the District purchases annuity contracts for various investments. All investment earnings, including market value appreciation and depreciation, are set aside in trusts for the benefit of the participants. For the 2010 and 2009 calendar years, for which the contributions were made during the 2011 and 2010 fiscal years, the District's matching contribution totaled \$1,821,000 and \$1,368,000, respectively.

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

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

OPEB benefits are funded entirely by the District on a pay-as-you-go basis. For the fiscal years ended June 30, 2011 and 2010, the District contributed \$711,000 and \$686,000, respectively, to fund benefits paid in those years.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

The District's annual Other Post-Employment Benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and the changes in the District's OPEB obligation.

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 4,126,000	\$ 3,778,000
Interest on net OPEB obligation	1,194,000	1,099,000
Adjustment to annual required contribution	<u>(2,380,000)</u>	<u>(2,191,000)</u>
Annual OPEB cost	2,940,000	2,686,000
Contributions made	<u>711,000</u>	<u>686,000</u>
Increase in net OPEB Obligation	2,229,000	2,000,000
Net OPEB obligation - beginning of year	<u>25,133,000</u>	<u>23,133,000</u>
Net OPEB obligation - end of year	<u>\$ 27,362,000</u>	<u>\$ 25,133,000</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 2,403,000	24.90%	\$ 23,133,000
2010	2,686,000	25.54%	25,133,000
2011	2,940,000	24.18%	27,362,000

As of June 30, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$30.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$30.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$131.7 million, and the ratio of the UAAL to the covered payroll was 23.4%.

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

In the June 30, 2011 and June 30, 2010 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions include an initial annual healthcare cost trend rate of 7% and 8%, respectively, reduced by decrements to an ultimate rate of 5% by the year 2017. For each of the years, a discount rate of 4.75% was assumed in the calculation and the UAAL is being amortized as a level percentage over 15 years on an open basis.

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

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

(11) Insurance Plans

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

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

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

Selected coverages are:

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

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

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

For the years ended June 30, 2011 and 2010, an actuarial estimate was prepared for the self-funded health, dental and vision IBNR claims liability.

(12) Compensated Absences

District employees earn paid leave at varying rates depending on length of service and job classification. Employees can accumulate up to 640 hours of paid leave. All accumulated unused leave in excess of the maximum accrual amount is paid at the employee's anniversary date. Upon separation, unused leave balances are paid in full. As of June 30, 2011 and 2010, the liability for unpaid compensated absences was \$14,115,000 and \$12,856,000 respectively.

(13) Commitments and Contingencies

(a) Lease Commitments

DEVCO has operating leases for medical clinics. Rental expense under these leases for fiscal years ended June 30, 2011 and 2010 was \$4,656,000 and \$3,699,000, respectively. DEVCO sub-leased a portion of these spaces and generated revenue of \$2,567,000 and \$2,143,000 for 2011 and 2010, respectively

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010

Future minimum rental commitments for years subsequent to June 30, 2011 are as follows:

2012	\$2,746,000
2013	2,287,000
2014	1,857,000
2015	1,495,000
2016	367,000
Thereafter	749,000
	<u>\$ 9,501,000</u>

(b) *Litigation*

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

(c) *Regulatory Environment*

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Supplemental Pension and Post-Employment Benefit Information

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

Supplemental Pension and Post-Employment Benefit Information

Defined Benefit Retirement Plan

The following table summarizes the number of total plan participants:

	2011	2010
Participating employees	1,341	1,308
Deferred vested participants	593	600
Retirees and beneficiaries	542	489
Total plan participants	2,476	2,397

The following table summarizes the prepaid/ (liability) pension cost for the Defined Benefit Retirement Plan:

	Beginning of year prepaid pension cost (a)	Annual pension cost (b)	Actual contribution (c)	Change in prepaid pension cost (c-b)	End of year prepaid pension cost (a)+(c-b)
Fiscal year:					
2009	\$15,739,000	\$10,095,000	\$8,500,000	-\$1,595,000	\$14,144,000
2010	14,144,000	12,676,000	0	-12,676,000	1,468,000
2011	1,468,000	15,691,000	0	-15,691,000	-14,223,000

Defined Benefit Post-Retirement Medical Plan

The following table summarizes the number of total plan participants:

	2011	2010
Active employees	1,290	1,263
Retirees receiving pre-65 \$440 reimbursement	3	1
Retirees receiving pre-65 \$440 COBRA benefits	23	24
Retirees receiving Part-B subsidy	268	259
Retirees eligible for Part-B subsidy only	9	11
Retirees receiving Part-D subsidy only	5	2
Total plan participants	1,598	1,560
Retirees also receiving Part-D subsidy benefit	53	41
Retirees also eligible for Part-D	25	21

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Supplemental Pension and Post-Employment Benefit Information

The following table summarizes the funding status of the Defined Benefit Post-Retirement Medical Plan:

<u>Valuation Date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – projected unit credit (b)</u>	<u>Unfunded Actuarial accrued liability UAAL (a-b)</u>	<u>Funded ratio (a/b)</u>	<u>Annual Covered payroll (c)</u>	<u>Assets in excess/(shortfall) AAL as a percentage of covered payroll ((a – b)/c)</u>
7/1/2009	—	27,744,000	(27,744,000)	0.0%	121,053,000	-22.9%
7/1/2010	—	30,852,000	(30,852,000)	0.0%	131,700,000	-23.4%
7/1/2011	—	35,154,000	(35,154,000)	0.0%	141,967,000	-24.8%

The following table summarizes the contributions to the Defined Benefit Post-Retirement Medical Plan:

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
7/1/2008 - 6/30/2009	3,410,000	598,000	17.54%
7/1/2009 - 6/30/2010	3,778,000	686,000	18.16%
7/1/2010 - 6/30/2011	4,126,000	711,000	17.23%

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
Supplemental Pension and Post-Employment Benefit Information

The following table summarizes the calculation of the net benefit obligation for the Defined Benefit Post-Retirement Medical Plan:

Fiscal year	Beginning of year Net Benefit Obligation (a)	Recommended Contribution (b)	Actual Contribution (c)	Annual OPEB Cost (d)	Increase in Net Benefit Obligation (d-c)	End of year Net Benefit Obligation ((a)+(d-c))
7/1/2008 - 6/30/2009	\$21,328,000	\$3,410,000	\$598,000	\$2,403,000	\$1,805,000	\$23,133,000
7/1/2009 - 6/30/2010	23,133,000	3,778,000	686,000	2,686,000	2,000,000	25,133,000
7/1/2010 - 6/30/2011	25,133,000	4,126,000	711,000	2,940,000	2,229,000	27,362,000

The following table summarizes the actuarial assumptions used to determine the Defined Benefit Post-Retirement Medical Plan liabilities as of June 30, 2011:

Valuation Date	July 1, 2011
Measurement Date	June 30, 2011
Actuarial Cost Method	Projected Unit Credit
Amortizing Method	15 year open
Remaining Amortization Period	15 year open
Asset Valuation Method	Market Value
Actuarial Assumptions	
Discount rate	4.75%
Current trend rate	7.00%
Ultimate trend	5.00%
Year of ultimate trend rate	2017