Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

The Hospital Committee for the Livermore-Pleasanton Area (dba ValleyCare Health System)

June 30, 2012 and 2011

MOSS-ADAMS LLP

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
ValleyCare Health System

We have audited the accompanying consolidated balance sheets of ValleyCare Health System (a California non-profit corporation) as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of ValleyCare Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ValleyCare Health System as of June 30, 2012 and 2011, and the consolidated results of its operations and changes in unrestricted net assets, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, ValleyCare Health System restated its consolidated financial statements as of and for the year ended June 30, 2011.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of ValleyCare Health System, taken as a whole. The accompanying supplementary schedules of consolidating balance sheets and consolidating statements of operations for the years ended June 30, 2012 and 2011, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the Unites States of America. In our opinion, the information is fairly stated in all material respects in the relation to the consolidated financial statements as a whole.

Moss Adams LLP

San Francisco, California
September 27, 2012

CONSOLIDATED FINANCIAL STATEMENTS

VALLEYCARE HEALTH SYSTEM
CONSOLIDATED BALANCE SHEETS
June 30, 2012 and 2011

	2012 (000's)	2011 (000's) As restated
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 31,740	$ 35,642
Assets limited as to use required for current liabilities	4,363	4,309
Patient accounts receivable, net of allowance for doubtful accounts of $9,441 in 2012 and $8,637 in 2011	47,839	43,818
Estimated third-party payor receivable settlements	1,806	619
Inventories	4,530	4,535
Prepaid expenses and other	3,794	7,607
Total current assets	94,072	96,530
ASSETS LIMITED AS TO USE	11,961	12,234
PROPERTY, PLANT, AND EQUIPMENT, net	103,502	105,124
OTHER ASSETS		
Land held for expansion	1,780	1,780
Investments in healthcare service companies	2,589	2,622
Deferred financing costs	1,524	1,652
Notes and other	629	657
Total other assets	6,522	6,711
Total assets	$ 216,057	$ 220,599
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 14,382	$ 14,842
Accrued payroll and related liabilities	24,328	21,713
Estimated third-party payor payable settlements	832	1,156
Other	2,208	4,754
Current portion of long-term debt and capital lease obligations	4,163	3,427
Total current liabilities	45,913	45,892
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	87,963	91,356
SELF-INSURANCE RESERVES	1,377	1,224
DEFERRED REVENUE	1,078	1,280
Total liabilities	136,331	139,752
NET ASSETS		
Unrestricted	79,299	80,628
Temporarily restricted	427	219
Total net assets	79,726	80,847
Total liabilities and net assets	$ 216,057	$ 220,599

See accompanying notes.

	2012 (000's)	2011 (000's) As restated
UNRESTRICTED REVENUE, GAINS AND OTHER SUPPORT		
Net patient service revenue	$ 267,496	$ 264,194
Other revenue	10,079	12,821
Total unrestricted revenue, gains, and other support	277,575	277,015
EXPENSES		
Salaries and benefits	132,506	127,914
Supplies	39,213	35,802
Provision for bad debts	23,651	28,605
Purchased services	27,769	26,109
Professional services	22,064	22,706
Depreciation and amortization	8,457	8,583
Interest, net	5,712	5,792
Utilities	3,077	3,000
Insurance	1,909	1,940
Hospital quality assurance fee	3,068	9,101
Other	12,235	12,177
Total operating expenses	279,661	281,729
Operating loss	(2,086)	(4,714)
OTHER INCOME		
Investment income	279	318
Total other income	279	318
DEFICIT OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSE	(1,807)	(4,396)
Net assets released from restrictions used for property, plant, and equipment	478	1,305
Change in unrestricted net assets	$ (1,329)	$ (3,091)

See accompanying notes.

VALLEYCARE HEALTH SYSTEM
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended June 30, 2012 and 2011

	2012 (000's)	2011 (000's) As restated
UNRESTRICTED NET ASSETS		
Deficit of revenues, gains, and other support over expenses	$ (1,807)	$ (4,396)
Net assets released from restrictions used for property, plant, and equipment	478	1,305
Change in unrestricted net assets	(1,329)	(3,091)
TEMPORARILY RESTRICTED NET ASSETS		
Donor-restricted contributions and investment earnings	1,069	1,691
Net assets released from restrictions	(861)	(1,752)
Change in temporarily restricted net assets	208	(61)
CHANGE IN NET ASSETS	(1,121)	(3,152)
NET ASSETS, beginning of year	80,847	83,999
NET ASSETS, end of year	$ 79,726	$ 80,847

See accompanying notes.

	2012 (000's)	2011 (000's) As restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,121)	$ (3,152)
Adjustments to reconcile the increase in net assets to net cash from operating activities:		
Depreciation and amortization	8,457	8,583
Gain on disposal of assets	(1)	(53)
Provision for bad debts	23,651	28,605
Changes in operating assets and liabilities:		
Patient accounts receivable	(27,672)	(30,953)
Inventories, prepaid expenses and other	3,818	(3,783)
Accounts payable and accrued expenses	(460)	(2,240)
Accrued payroll and related liabilities	2,615	2,339
Estimated third-party payor settlements	(1,511)	1,063
Other	(2,518)	2,831
Self-insurance reserves	153	(428)
Deferred revenue	(202)	(221)
Net cash from operating activities	5,210	2,591
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(6,029)	(7,505)
Proceeds from sale of property, plant, and equipment	1	53
Purchase of assets limited as to use	(54)	(58)
Proceeds from the sale of assets limited as to use	273	5,532
Net change in investments in healthcare service companies	33	(60)
Net cash used in investing activities	(5,776)	(2,038)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term obligations	(3,591)	(2,859)
Proceeds from issuance of long-term obligations	255	-
Net cash used in financing activities	(3,336)	(2,859)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,902)	(2,306)
CASH AND CASH EQUIVALENTS, beginning of year	35,642	37,948
CASH AND CASH EQUIVALENTS, end of year	$ 31,740	$ 35,642
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 5,712	$ 5,792
Acquisition of equipment financed with a capital lease	$ 679	$ 1,590

See accompanying notes.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of organization – The Hospital Committee for the Livermore-Pleasanton Areas, dba ValleyCare Health System ("VHS"), is a California not-for-profit corporation.

VHS owns and operates Valley Memorial Hospital ("VMH"), a general acute care medical facility in Livermore, California, and ValleyCare Medical Center ("VMC"), a general acute care facility in Pleasanton, California. VMH and VMC (the "Hospitals") operate under a single hospital license and provide both inpatient and outpatient healthcare services. VHS is licensed for the operation of 242 beds at June 30, 2012 and June 30, 2011. As of June 30, 2012 and June 30, 2011, 207 beds are set up and staffed.

VHS is the sole corporate member of ValleyCare Charitable Foundation ("VCF"), a California nonprofit corporation. VCF raises funds for and supports programs and activities of VHS and its related entities.

VHS is the sole corporate member of ValleyCare Senior Housing, Inc., a California nonprofit corporation. ValleyCare Senior Housing, Inc. holds property in Livermore on which an assisted living center has been constructed.

VHS is the sole corporate member of ValleyCare Medical Foundation, Inc. ("VMF"), a California nonprofit corporation established as a separate legal entity, with VHS retaining a significant measure of influence through its annual subsidy. The primary purpose of VMF is to provide medical services to the community through a professional services agreement with ValleyCare Physician Associates, Inc., a for-profit entity.

ValleyCare Physicians Associates, Inc., a California professional medical corporation, provides medical services to VMF through a professional services agreement. ValleyCare Physicians Associates, Inc. is not consolidated with VHS.

Principles of consolidation – The consolidated financial statements include the accounts of the Hospitals, VCF, VMF, and ValleyCare Senior Housing, Inc.; all intercompany balances have been eliminated in consolidation. The accounts of the Auxiliary, a volunteer group that donates services to the Hospitals, are included in the financial statements of VHS.

Basis of presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of VHS and changes therein are classified and reported as follows:

> *Unrestricted Net Assets* – Net assets that are not subject to donor imposed stipulations. Investment earnings are recorded as unrestricted net assets for certain temporarily restricted funds in accordance with donor stipulations.
>
> *Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of VHS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Cash and cash equivalents – Cash and cash equivalents include cash on hand and cash in banks. Financial instruments potentially subjecting VHS to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC limits.

Assets limited as to use – Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, workers' compensation claims, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet the related current liabilities of VHS have been classified as current assets in the consolidated balance sheets as of June 30, 2012 and 2011.

Patient accounts receivable – Patient accounts receivable consist of amounts owed by various government agencies, insurance companies and private patients. VHS grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. VHS manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances. The significant concentration of receivables from patients and third-party payors is as follows at June 30:

	2012	2011
Medicare	23%	20%
Medi-Cal	8%	9%
Self payors	7%	13%
Contracted third-party payors	62%	58%
	100%	100%

Inventories – Inventories are stated at cost, which is determined on the first-in, first-out method of accounting.

Prepaid expenses and other – Prepaid expenses and other consist of dues, premiums paid in advance, and receivables from insurance coverage. In 2011, there is a prepaid payment made for the California Hospital Fee Program. These payments were recognized as expenses in 2012 (See Note 3).

Property and equipment – Property and equipment acquisitions in excess of $5,000 are recorded at cost. VHS depreciates acquisitions using the straight-line method over the estimated useful life of each class of depreciable asset. The ranges of depreciable lives by classification are:

Land improvements	5 - 25 years
Building and improvements	5 - 40 years
Equipment	3 - 25 years

Interest expense on long-term debt issued for construction projects, less income earned on the investment of the funds received as a result of issuing long-term debt, is capitalized from the date of the borrowing until the projects are placed in service. Interest related to construction projects with a length of at least six months is capitalized.

Land held for expansion – Contributed land held for expansion was recorded at its appraised market value at the time of contribution.

Asset impairment – VHS annually evaluates the carrying value of its long-lived assets for potential impairment. The evaluations address the estimated recoverability of the assets' carrying value. When events or changes in circumstances indicate that the carrying value may not be recoverable, the excess of the carrying value over the fair value is recorded as impairment. No impairment was recorded for the years ended June 30, 2012 and 2011.

Investments in healthcare service companies – VHS accounts for its ownership interest in various healthcare related companies using the equity method. Accordingly, net income or loss from these companies is included in the accompanying consolidated statements of operations.

Self-insurance reserves – VHS self-insures for employee health claims up to $100,000 per covered individual. Amounts above $100,000 per claim are covered by VHS' reinsurance policy. VHS has high deductible insurance policies for workers' compensation claims and professional liability claims. The workers' compensation and professional liabilities, not withstanding potential insurance recoveries, are reflected in total as self-insurance reserves on the consolidated balance sheets. The employee health claims liability is included within accrued payroll and related liabilities on the consolidated balance sheets. The related receivables from insurance coverage are recorded in prepaid expenses and other.

Deferred financing costs – Costs associated with the issuance of debt are being amortized on a straight line basis over the term of the related borrowing, which approximates the effective interest method.

Other current liabilities – Amounts classified as other current liabilities represent bond interest payables. In 2011, other current liabilities include payments received from the California Department of Health Care Services and California Health Foundation and Trust for the California Hospital Fee Program. These payments were recognized as revenues in 2012 (See Note 3).

Workers' compensation insurance – VHS is insured for workers' compensation claims, with a self-insured retention of $250,000 per occurrence. VHS has used historical claims experience to estimate the total loss to recognize an estimated liability and related receivables when insurance deductibles are reached. The claim reserve is based on the best data available to VHS; however, the estimate is subject to a significant degree of inherent variability. Such an estimate is continually monitored and reviewed. As the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of workers' compensation liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is aware of no potential workers' compensation claim whose settlement, if any, would have a material adverse effect on VHS' consolidated financial position. VHS has available a standby Letter of Credit as of June 30, 2012 and 2011, of $2,900,000 and $3,250,000, respectively, for the purpose of collateralizing workers' compensation claims. The Letter of Credit is collateralized through amounts included in Assets Limited as to Use. No amounts were paid under the Letter of Credit during the years ended June 30, 2012 and 2011.

Professional liability insurance – VHS insures for professional liability claims under a claims-made policy. Under the policy, insurance premiums cover only those claims actually reported during the policy term – up to $20,000,000 of coverage for each occurrence. The first $250,000 per claim is retained by VHS. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination may be uninsured. VHS has used historical claims experience to estimate the uninsured loss to recognize an estimated liability to cover VHS' potential exposure to incurred but unreported claims. The claim reserve is based on the best data available to VHS; however, the estimate is subject to a significant degree of inherent variability. Such an estimate is continually monitored and reviewed; and, as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of professional liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is aware of no potential professional liability claims whose settlement if any would have a material adverse effect on the VHS' consolidated financial position.

Deferred revenue – Amounts classified as deferred revenue represent amounts received in advance for membership dues to Lifestyle Rx, VHS' medical fitness facility.

Net patient service revenue – VHS has agreements with third-party payors that provide for payments to the Hospitals at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. 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.

Other revenue – Other revenue represents amounts received for services that are central to the provision of healthcare services but not directly related to patient care. These include net income from investments in healthcare service companies, rental income, contributions, and other non-patient care revenue. In 2011, other revenue includes payments received from the California Health Foundation and Trust for the California Hospital Fee Program (See Note 3).

Donor restricted gifts – Unconditional promises to give cash and other assets to VHS are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with stipulations that limit the use of the donated assets. Temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions once one of the following occurs: a donor restriction expires, a stipulated time restriction ends, or a purpose restriction is accomplished. Funds restricted for a purpose that VHS is not able to fulfill are returned to the original donor. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Charity care –VHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. As VHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Charity care does not include non-covered government services and the losses for government programs, such as Medi-Cal and State Children's Health Program, that are under-reimbursed or subsidized. The cost of charity care is measured at actual cost by patient, less any collections received on those cases. Costs incurred in providing these services in 2012 and 2011 were approximately $960,000 and $748,000, respectively, for 950 and 780 patients, respectively.

Performance indicator – Deficit of revenues, gains, and other support over expenses as reflected in the consolidated statements of operations is the performance indicator. Consistent with industry practice, this includes all changes in unrestricted net assets, other than unrealized gains and losses on investments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were too used for the purposes of acquiring such assets).

Income taxes – VHS, VMF, VCF, and ValleyCare Senior Housing, Inc. are not-for-profit corporations and have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, VHS pays tax on unrelated business income. No deferred taxes are recorded, because the amount and effects of timing differences are not significant.

Use of estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although we believe all adjustments considered necessary for fair presentation have been included, actual results could differ from those estimates.

New accounting pronouncements – In July 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"), which require health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to present the provision for bad debts related to patients service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statements of operations. The adoption of ASU 2011-07 is effective for VHS beginning July 1, 2012. Management is currently evaluating the impact on the consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24"), which clarifies that a health care entity should not net insurance recoveries against related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. VHS adopted this guidance on July 1, 2011.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure* ("ASU 2010-23"), which requires that cost be used as a measurement for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. It also requires disclosure of the method used to identify or determine such costs. VHS adopted this guidance on July 1, 2011.

Reclassifications – Certain reclassifications and changes in presentation were made in the 2011 consolidated financial statements to conform to the 2012 presentation.

NOTE 2 – RESTATEMENT

VHS determined that it had understated the profit sharing cost for its defined contribution retirement plan due to an error in the interpretation of the plan provisions. The correction of this error resulted in an increase in salaries and benefits expense of $1,792,000 for the year ended June 30, 2011. Additionally, the unrestricted net assets as of July 1, 2011 were reduced by $1,533,000.

The impact of the restatement adjustments described above to the June 30, 2011 consolidated financial statements is as follows:

	As published (000's)	As restated (000's)
Consolidated statement of balance sheet		
Accounts payable and accrued expenses	$ 16,342	$ 14,842
Accrued payroll and related liabilities	16,887	21,713
Total liabilities	136,426	139,752
Unrestricted net assets	83,954	80,628
Total net assets	84,173	80,847
Consolidated statement of operations and changes in net assets		
Salaries and benefits	126,122	127,914
Total operating expenses	279,937	281,729
Operating loss	(2,922)	(4,714)
Deficit of revenues, gains, and other support over expense	(2,604)	(4,396)
Change in unrestricted net assets	(1,299)	(3,091)
Change in net assets	(1,359)	(3,152)
Net assets, beginning of year	85,532	83,999
Net assets, end of year	84,173	80,847
Consolidated statement of cash flows		
Change in net assets	(1,359)	(3,152)
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	(740)	(2,240)
Accrued payroll and related liabilities	(954)	2,339

NOTE 3 – NET PATIENT SERVICE REVENUE

ValleyCare Health System has agreements with third-party payors that provide for reimbursement to them at amounts different from their established rates. Contractual discounts under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare – Inpatient acute care services are paid at a stipulated amount per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Skilled nursing services are paid based on resource utilization groups. Most outpatient services are paid on a prospective payment system ("PPS") and the ambulatory payment classification ("APC") system upon which it is based. The unique services rendered are grouped, by patient, into a series of complex APC assignments which determine the specific Medicare reimbursement rate. Certain hospital services are cost-reimbursed at a tentative rate, with final settlement determined after submission and audit of annual cost reports. As of June 30, 2012, cost reports through June 30, 2010, have been audited by the Medicare fiscal intermediary.

Medi-Cal – The state of California provides reimbursement for eligible inpatients receiving acute care services on a cost basis with a per discharge cap. The Hospitals are paid an interim rate for acute care services during the year, with final settlement determined after submission and audit of annual cost reports. In addition, the Hospitals are subject to a peer group inpatient reimbursement limitation ("PIRL"), which is applied to several years at once after the cost reports have been finalized. Outpatient services are reimbursed based on fee schedules published by the State of California. As of June 30, 2012, cost reports through June 30, 2010, have been audited by the Medi-Cal fiscal intermediary.

Other contracts – VHS has negotiated various contractual arrangements with commercial insurance companies and health maintenance organizations that pay for services based on a per diem rate or percentage of billed charges.

The provision for bad debts of approximately $23,651,000 and $28,605,000 for the years ended June 30, 2012 and 2011, respectively, represents estimated uncollectible charges for services provided primarily to self-pay and private health insurance patients.

California Hospital Fee Program – In November 2009, the California Hospital Fee Program (the "Program") was signed into California state law. The Program provides supplemental Medi-Cal payments to certain California hospitals. The Program is funded by a quality assurance fee (the "Fee") paid by participating hospitals and by matching federal funds. Hospitals receive supplemental payments from either the California Department of Health Care Services ("DHCS"), managed care plans or a combination of both. The Program was administered in two parts. The first part ("Part One"), created by Assembly Bill 1653 (signed into law in September 2010), covers the period beginning April 1, 2009 through December 31, 2010. The second part ("Part Two"), created by Senate Bill 90 (signed into law in March 2011), covers the period beginning January 1, 2011 through June 30, 2011. Part One became effective in fiscal year 2011 after approval from the Centers for Medicare and Medicaid Services ("CMS"). VHS recognized $9,101,000 in expense for the year ended June 30, 2011. VHS received total supplemental payments for Part One of $5,487,000 and $1,092,000 from DHCS and Medi-Cal managed care plans, respectively. These amounts are recorded as part of net patient service revenue in the consolidated statements of operations for the year ended June 30, 2011. Additionally, the California Hospital Association ("CHA") has established a private program through the California Health Foundation and Trust ("CHFT"), a health advocacy organization affiliated with CHA to benefit hospitals and health systems that are net contributors under the Program. VHS was granted funds from CHFT of $2,522,000. This amount is recorded as other operating revenue for the year ended June 30, 2011.

VHS paid $3,068,000 in fees in 2011 for Part Two of the Program. As the program was not yet legally effective as of June 30, 2011, these payments have been recorded as prepaid expenses as of June 30, 2011. Upon final approval from CMS in 2012, the payments made into the Program were recorded as a part of operating expense in 2012. VHS received supplemental payments for Part Two of $2,355,000 and $407,000 from DHCS and CHFT in 2011. As the program was not yet legally effective as of June 30, 2011, these payments have been recorded as deferred revenues as of June 30, 2011. Upon final approval from CMS in 2012, funds received from DHCS were recorded as a part of net patient service revenues and funds received from CHFT were recorded as a part of other operating revenue. In 2012, VHS received an additional $339,000 from Alameda Alliance, a managed care plan, for Part Two of the program. These payments were recorded as a part of net patient service revenue in 2012.

In September 2011, Senate Bill 335 ("Part Three") was signed into law which extends the Program to cover the period beginning July 1, 2011 through December 31, 2013. As of June 30, 2012, and as of the date of this report, management has not recorded any revenues or expenses for the required Fee or payments to be received for Part Three of the Program as management determined all required approvals from CMS have not been received.

Net patient service revenue consists of the following for the years ended June 30:

	2012 (000's)	2011 (000's)
Gross patient charges		
Routine inpatient services	$ 219,873	$ 205,964
Ancillary inpatient services	473,897	433,043
Outpatient services	425,217	390,328
	1,118,987	1,029,335
Deduction from gross patient charges		
Contractual allowances for statutory and negotiated rates	(851,491)	(765,141)
Net patient service revenue	$ 267,496	$ 264,194

The composition of net patient service revenue by major payor is as follows for the years ended June 30:

	2012	2011
Medicare	26%	25%
Medi-Cal	5%	5%
Self payors	11%	13%
Contracted third-party payors	58%	57%
Net patient service revenue	100%	100%

NOTE 4 – ASSETS LIMITED AS TO USE

Assets limited as to use are comprised of the following:

	2012 (000's)	2011 (000's)
Board-designated for:		
Under bond indenture agreements for debt service	$ 12,202	$ 12,148
Assets held for workers' compensation claims	3,391	3,864
Other	731	531
	16,324	16,543
Less: current assets limited as to use	(4,363)	(4,309)
Long-term portion of assets limited as to use	$ 11,961	$ 12,234

Investment income is comprised of the following:

	2012 (000's)	2011 (000's)
Interest and dividends	$ 279	$ 318
Total investment income	$ 279	$ 318

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Property and equipment at June 30, 2012 and 2011, consist of the following:

	2012 (000's)	2011 (000's)
Buildings and building improvements	$ 126,918	$ 125,297
Equipment	58,027	53,188
Land improvements	9,786	9,786
	194,731	188,271
Less: accumulated depreciation	(117,275)	(108,527)
	77,456	79,744
Land	16,358	16,358
Construction in progress	9,688	9,022
Total property, plant, and equipment (net)	$ 103,502	$ 105,124

At June 30, 2012, there are no material commitments related to construction projects.

NOTE 6 – LAND HELD FOR EXPANSION

VHS owns land in Pleasanton, California, on which it plans to expand its medical complex. Two parcels totaling 10.7 acres are being held for this future expansion. In conjunction with owning and developing the Pleasanton land, VHS participates in the Old Santa Rita Road Assessment District and the North Pleasanton Improvement District with other owners and developers in the area to reimburse the City of Pleasanton for bonds it issued to finance common land improvements made for the benefit of the participants. VHS' share of this bond reimbursement is approximately $22,000 per year for 20 years for the Old Santa Rita Road Assessment District and $90,000 per year for 28 years for the North Pleasanton Improvement District. VHS expenses these amounts as they are paid.

In prior years, the City of Livermore granted approximately $2.0 million of federal grant monies to ValleyCare Senior Housing, Inc. (a fully owned subsidiary of VHS) to purchase 10.2 acres of land from the City of Livermore. A developer and operator has completed and opened units on 8.4 acres of the land. VHS retains ownership of the land and expects to earn future land lease revenue.

NOTE 7 – INVESTMENTS IN HEALTHCARE SERVICE COMPANIES

VHS owns a 36.39 percent limited partner interest in Pleasanton Physician Associates II ("PPA II"). PPA II owns and operates a medical office building in Pleasanton. VHS leased the land under the medical office building to PPA II under the terms of a 40-year lease. A portion of the 40-year lease payment was prepaid by PPA II and was being recognized as income by VHS over the lease term. VHS leases space in the medical office building under a 10-year lease. In conjunction with PPA II's refinancing of its debt in 1996, VHS has guaranteed a specified amount of rental receipts for the building.

The building lease payments made to PPA II were approximately $984,000 and $958,000 in 2012 and 2011, respectively.

In fiscal year 2007, ValleyCare Senior Housing, Inc. contributed approximately two acres of land as its equity share in the development of 130 senior housing units. These units opened in fiscal year 2007.

NOTE 8 – LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital leases as of June 30, 2012 and 2011 consist of the following obligations:

	2012 (000's)	2011 (000's)
2009 Series Revenue Bonds, interest rates of 6.29 percent, payable in monthly installments through 2019.	$ 8,182	$ 9,059
2007 Series A Insured Revenue Bonds, interest rates ranging from 4.8 percent to 5.125 percent, payable in semi-annual installments through 2031.	51,040	52,185
2007 Series B Insured Revenue Bonds, interest rate of 7.99 percent, payable in semi-annual installments through 2027.	24,115	24,850
Note payable to bank, interest of 5.95 percent, payable in monthly installments of $62,421 per month, including interest, collateralized by certain land and building.	6,631	6,942
Promissory note payable to bank, interest rate at 6.29 percent, payable in monthly installments of $29,523, including interest, collateralized by certain equipment.	1,249	1,521
Other notes and capital lease obligations	909	226
	92,126	94,783
Less: current portion	4,163	3,427
	$ 87,963	$ 91,356

Scheduled long-term debt maturities and capital lease obligations for the next five years are as follows:

Year Ending June 30,	Long-Term Debt (000's)	Capital Lease Obligations (000's)	Total (000's)
2013	$ 3,830	$ 333	$ 4,163
2014	3,834	149	3,983
2015	4,074	149	4,223
2016	4,240	93	4,333
2017	4,206	-	4,206
Thereafter	71,264	-	71,264
	$ 91,448	$ 724	$ 92,172
Less amount representing interest under capital lease obligations		(46)	(46)
		$ 678	$ 92,126

The 2009 Series, 2007 Series A tax exempt, and 2007 Series B taxable revenue bonds are collateralized by property and equipment and gross revenues of VHS. Under the terms of the revenue bond indentures, VHS is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The revenue bond indentures also place limits on the incurrence of additional borrowings and require that VHS satisfy certain measures of financial performance as long as the bonds are outstanding.

The 2007 and 2009 Revenue Bonds contain certain covenants, which require VHS to maintain, among other things, certain financial ratios. The bonds generally require that VHS maintain 40 days of cash on hand, a current ratio of 1.5 and a maximum allowable debt service calculation of 1.25. Under the agreements, there is an acceleration of maturities that may be invoked if VHS does not meet certain debt covenants.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets as of June 30, 2012 and 2011, are restricted for the following purposes:

	2012 (000's)	2011 (000's)
Grants	$ 215	$ 39
Library	66	5
Ryan Comer Cancer Fund	48	51
Dr. Kwee Education Endowment	43	37
Other	28	61
Pulmonary Rehabilitation	27	26
Total temporarily restricted net assets	$ 427	$ 219

NOTE 10 – LEASE INCOME

VHS entered into various sublease agreements for office space through October 2028. Rental income from these subleases for the years ended June 30, 2012 and 2011, was $2,130,000 and $1,884,000, respectively.

Minimum future rental revenues due under these non-cancelable operating leases are as follows:

Year Ending June 30,		(000's)
2013	$	888
2014		675
2015		624
2016		562
2017		402
Thereafter		5,159
	$	8,311

NOTE 11 – COMMITMENTS

Lease commitments – VHS leases office space under non-cancelable lease agreements, including leases with Pleasanton Physician Affiliates and Pleasanton Physician Affiliates II. Rental expense under these leases was approximately $7,287,000 and $6,888,000 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments are:

Year Ending June 30,		(000's)
2013	$	6,958
2014		6,532
2015		5,943
2016		4,850
2017		4,535
Thereafter		25,069
	$	53,887

VHS leases certain equipment under non-cancelable leases. Approximately $1,475,000 and $1,749,000 of related expense is included in operating expenses for the years ended June 30, 2012 and 2011, respectively. Minimum future lease payments are:

Year Ending June 30,		(000's)
2013	$	1,951
2014		809
2015		195
2016		97
	$	3,053

VHS maintains an Extended Sick Leave ("ESL") program, as part of its paid-time off ("PTO") plan, to provide income replacement in coordination with State Disability Insurance and/or Workers' Compensation Insurance. ESL accrues per pay period using a formula based on the number of years of service and number of hours worked, up to a maximum of 720 hours. Employees may utilize the funds as they are accrued provided they meet plan requirements. Effective July 1, 2001, an employee's ESL fund becomes fully vested upon completion of fifteen years of benefited service with VHS. Vested employees are entitled to receive cash payout of their remaining fund balance upon termination. VHS' liability for vested funds at June 30, 2012 and 2011, is $3,648,000 and $3,676,000, respectively.

NOTE 12 – FUNCTIONAL EXPENSES

VHS provide general healthcare services to residents within their geographic location. Expenses related to providing these services are as follows:

	2012 (000's)	2011 (000's) As restated
Healthcare services	$ 200,809	$ 206,315
General and administrative	78,852	75,414
	$ 279,661	$ 281,729

NOTE 13 – DEFINED CONTRIBUTION RETIREMENT PLAN

A Defined Contribution Retirement Plan (IRS 401a) was implemented effective January 1, 2006. VHS contributed approximately $1,626,000 in 2012 and $3,051,000 in 2011 to the defined contribution retirement plan. VHS expects to contribute $4,922,000 in 2013 to the defined contribution retirement plan.

Employees of VHS are eligible to participate in the defined contribution retirement plan after completing one year of service in which at least 1,000 hours are worked. VHS will make annual contributions in an amount equal to each participant's compensation times an applicable contribution rate that is based on the number of years of service completed and participant age at the end of the plan year. Participants must be employed on the last day of the plan year to be eligible to receive any profit sharing contributions related to that plan year. Participants are fully vested upon completing three years of service.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Assets limited as to use – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets limited as to use recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

	2012 (000's)			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Assets limited as to use				
Cash and cash equivalents	$ 200	$ 200	$ -	$ -
Certificates of deposit	3,391	-	3,391	-
Money market funds	12,733	12,733	-	-
Totals	$ 16,324	$ 12,933	$ 3,391	$ -

	2011 (000's)			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Assets limited as to use				
Cash and cash equivalents	$ -	$ -	$ -	$ -
Certificates of deposit	3,864	-	3,864	-
Money market funds	12,679	12,679	-	-
Totals	$ 16,543	$ 12,679	$ 3,864	$ -

The following methods and assumptions were used by VHS in estimating the fair value of all other financial instruments:

Cash and cash equivalents – The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates its fair value.

Accounts payable and accrued expenses – The carrying amount reported in the consolidated balance sheet for accounts payable and accrued expenses approximates its fair value.

Accrued payroll and related liabilities – The carrying amount reported in the consolidated balance sheet for accrued payroll and related liabilities approximates its fair value.

Estimated third-party payor settlements – The carrying amount reported in the consolidated balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term obligations – The fair value of long-term debt related to 2007 Series A and Series B Revenue Bonds are based on quoted market prices in an active market. The fair value of all other long-term obligations are estimated using discounted cash flow analyses, based on VHS' estimated current incremental borrowing rates for similar types of borrowing arrangements. The fair value amounts do not represent the amount that would be required to expend to retire the indebtedness.

The following table presents estimated fair values of VHS' financial instruments in accordance with ASC 825 *"Financial Instruments"* at June 30:

	2012 (000's)		2011 (000's)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 31,740	$ 31,740	$ 35,642	$ 35,642
Assets limited as to use	16,324	16,324	16,543	16,543
Estimated third-party payor receivable settlements	1,806	1,806	619	619
Accounts payable and accrued expenses	14,382	14,382	14,842	14,842
Accrued payroll and related liabilities	24,328	24,328	21,713	21,713
Estimated third-party payor payable settlements	832	832	1,156	1,156
Long-term obligations	92,126	90,870	94,783	91,352

NOTE 15 – CONTINGENCIES

VHS is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, it is management's opinion that the liability, if any, from these actions will not have a material adverse effect on VHS' financial position.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has continued 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 repayment for previously billed patient services. While VHS is subject to similar regulatory reviews, management believes that the outcome of any potential regulatory review will not have a material adverse effect on VHS' financial position. Currently Medicare has a nationwide program, RAC, which is attempting to recover perceived overpayments to hospitals. Although Medicare has recaptured money, management is confident that the recoveries will be returned through appeals.

Management believes that VHS is in compliance with government law and regulations related to fraud and abuse and other applicable areas. While no material regulatory inquiries have been made other than discussed in Note 2, 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.

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that the Hospitals could maintain uninterrupted operations following major earthquakes. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. VHS is currently in compliance with the 2030 requirements.

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

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. VHS recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. VHS' consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are issued.

VHS has evaluated subsequent events through September 27, 2012, which is the date the consolidated financial statements are issued.

SUPPLEMENTARY INFORMATION

ASSETS
(In thousands)

	ValleyCare Health System	ValleyCare Senior Housing, Inc.	ValleyCare Charitable Foundation	ValleyCare Medical Foundation	Total	Eliminations	Consolidated
CURRENT ASSETS							
Cash and cash equivalents	$ 28,609	$ 5	$ 119	$ 3,007	$ 31,740	$ -	$ 31,740
Assets limited as to use required for current liabilities	4,363	-	-	-	4,363	-	4,363
Patient accounts receivable, net of allowance for doubtful accounts of $9,441	44,045	-	-	3,794	47,839	-	47,839
Estimated third-party payor receivable settlements	1,806	-	-	-	1,806	-	1,806
Inventories	4,530	-	-	-	4,530	-	4,530
Prepaid expenses and other	3,692	-	-	102	3,794	-	3,794
Intercompany receivable	38,686	-	310	-	38,996	(38,996)	-
Total current assets	125,731	5	429	6,903	133,068	(38,996)	94,072
ASSETS LIMITED AS TO USE	11,430	-	531	-	11,961	-	11,961
PROPERTY, PLANT, AND EQUIPMENT, net	96,647	5,200	-	1,655	103,502	-	103,502
OTHER ASSETS							
Land held for expansion	1,780	-	-	-	1,780	-	1,780
Investments in healthcare service companies	1,264	1,325	-	-	2,589	-	2,589
Deferred financing costs	1,524	-	-	-	1,524	-	1,524
Notes and other	622	-	7	-	629	-	629
Total other assets	5,190	1,325	7	-	6,522	-	6,522
Total assets	$ 238,998	$ 6,530	$ 967	$ 8,558	$ 255,053	$ (38,996)	$ 216,057

LIABILITIES AND NET ASSETS
(In thousands)

	ValleyCare Health System	ValleyCare Senior Housing, Inc.	ValleyCare Charitable Foundation	ValleyCare Medical Foundation	Total	Eliminations	Consolidated
CURRENT LIABILITIES							
Accounts payable and accrued expenses	$ 14,007	$ -	$ -	$ 375	$ 14,382	$ -	$ 14,382
Accrued payroll and related liabilities	24,039	-	-	289	24,328	-	24,328
Estimated third-party payor payable settlements	832	-	-	-	832	-	832
Other	2,208	-	-	-	2,208	-	2,208
Intercompany payable	-	11	-	38,985	38,996	(38,996)	-
Current portion of long-term debt and capital lease obligations	4,163	-	-	-	4,163	-	4,163
Total current liabilities	45,249	11	-	39,649	84,909	(38,996)	45,913
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	87,963	-	-	-	87,963	-	87,963
SELF-INSURANCE RESERVES	1,377	-	-	-	1,377	-	1,377
DEFERRED REVENUE	1,078	-	-	-	1,078	-	1,078
Total liabilities	135,667	11	-	39,649	175,327	(38,996)	136,331
NET ASSETS							
Unrestricted	103,127	6,519	744	(31,091)	79,299	-	79,299
Temporarily restricted	204	-	223	-	427	-	427
Total net assets	103,331	6,519	967	(31,091)	79,726	-	79,726
Total liabilities and net assets	$ 238,998	$ 6,530	$ 967	$ 8,558	$ 255,053	$ (38,996)	$ 216,057

ASSETS
(In thousands)

	ValleyCare Health System	ValleyCare Senior Housing, Inc.	ValleyCare Charitable Foundation	ValleyCare Medical Foundation	Total	Eliminations	Consolidated
CURRENT ASSETS							
Cash and cash equivalents	$ 34,419	$ 5	$ 94	$ 1,124	$ 35,642	$ -	$ 35,642
Assets limited as to use required for current liabilities	4,309	-	-	-	4,309	-	4,309
Patient accounts receivable, net of allowance for doubtful accounts of $8,637	40,603	-	-	3,215	43,818	-	43,818
Estimated third-party payor receivable settlements	619	-	-	-	619	-	619
Inventories	4,535	-	-	-	4,535	-	4,535
Prepaid expenses and other	7,325	-	-	282	7,607	-	7,607
Intercompany receivable	27,516	-	279	-	27,795	(27,795)	-
Total current assets	119,326	5	373	4,621	124,325	(27,795)	96,530
ASSETS LIMITED AS TO USE	11,703	-	531	-	12,234	-	12,234
PROPERTY, PLANT, AND EQUIPMENT, net	98,264	5,200	-	1,660	105,124	-	105,124
OTHER ASSETS							
Land held for expansion	1,780	-	-	-	1,780	-	1,780
Investments in healthcare service companies	1,296	1,326	-	-	2,622	-	2,622
Deferred financing costs	1,652	-	-	-	1,652	-	1,652
Notes and other	622	-	18	17	657	-	657
Total other assets	5,350	1,326	18	17	6,711	-	6,711
Total assets	$ 234,643	$ 6,531	$ 922	$ 6,298	$ 248,394	$ (27,795)	$ 220,599

LIABILITIES AND NET ASSETS
(In thousands)

	ValleyCare Health System	ValleyCare Senior Housing, Inc.	ValleyCare Charitable Foundation	ValleyCare Medical Foundation	Total	Eliminations	Consolidated
CURRENT LIABILITIES							
Accounts payable and accrued expenses	$ 14,634	$ -	$ -	$ 208	$ 14,842	$ -	$ 14,842
Accrued payroll and related liabilities	20,841	-	-	872	21,713	-	21,713
Estimated third-party payor payable settlements	1,156	-	-	-	1,156	-	1,156
Other	4,754	-	-	-	4,754	-	4,754
Intercompany payable	-	11	-	27,784	27,795	(27,795)	-
Current portion of long-term debt and capital lease obligations	3,427	-	-	-	3,427	-	3,427
Total current liabilities	44,812	11	-	28,864	73,687	(27,795)	45,892
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, net of current portion	91,356	-	-	-	91,356	-	91,356
SELF-INSURANCE RESERVES	1,224	-	-	-	1,224	-	1,224
DEFERRED REVENUE	1,280	-	-	-	1,280	-	1,280
Total liabilities	138,672	11	-	28,864	167,547	(27,795)	139,752
NET ASSETS							
Unrestricted	95,938	6,520	736	(22,566)	80,628	-	80,628
Temporarily restricted	33	-	186	-	219	-	219
Total net assets	95,971	6,520	922	(22,566)	80,847	-	80,847
Total liabilities and net assets	$ 234,643	$ 6,531	$ 922	$ 6,298	$ 248,394	$ (27,795)	$ 220,599

	ValleyCare Health System	ValleyCare Senior Housing, Inc.	ValleyCare Charitable Foundation	ValleyCare Medical Foundation	Total	Eliminations	Consolidated
				(In thousands)			
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT							
Net patient service revenue	$ 250,625	$ -	$ -	$ 16,871	$ 267,496	$ -	$ 267,496
Other revenue	9,596	-	289	457	10,342	(263)	10,079
Total unrestricted revenue, gains, and other support	260,221	-	289	17,328	277,838	(263)	277,575
EXPENSES							
Salaries and benefits	127,411	-	135	5,095	132,641	(135)	132,506
Supplies	38,369	-	4	844	39,217	(4)	39,213
Provision for bad debts	22,709	-	-	942	23,651	-	23,651
Purchased services	24,049	-	4	3,720	27,773	(4)	27,769
Professional services	9,689	-	19	12,375	22,083	(19)	22,064
Depreciation and amortization	8,144	-	19	313	8,476	(19)	8,457
Interest, net	5,712	-	-	-	5,712	-	5,712
Utilities	3,077	-	-	-	3,077	-	3,077
Insurance	1,404	-	-	505	1,909	-	1,909
Hospital quality assurance fee	3,068	-	-	-	3,068	-	3,068
Other	10,176	-	82	2,059	12,317	(82)	12,235
Total operating expenses	253,808	-	263	25,853	279,924	(263)	279,661
Operating income (loss)	6,413	-	26	(8,525)	(2,086)	-	(2,086)
OTHER INCOME							
Investment income	279	-	-	-	279	-	279
Total other income	279	-	-	-	279	-	279
EXCESS (DEFICIT) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSE	$ 6,692	$ -	$ 26	$ (8,525)	$ (1,807)	$ -	$ (1,807)

	ValleyCare Health System	ValleyCare Senior Housing, Inc.	ValleyCare Charitable Foundation	ValleyCare Medical Foundation	Total	Eliminations	Consolidated
				(In thousands)			
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT							
Net patient service revenue	$ 249,745	$ -	$ -	$ 14,449	$ 264,194	$ -	$ 264,194
Other revenue	12,301	-	460	320	13,081	(260)	12,821
Total unrestricted revenue, gains, and other support	262,046	-	460	14,769	277,275	(260)	277,015
EXPENSES							
Salaries and benefits	123,388	-	130	4,526	128,044	(130)	127,914
Supplies	34,890	-	2	912	35,804	(2)	35,802
Provision for bad debts	28,352	-	-	253	28,605	-	28,605
Purchased services	22,830	-	8	3,279	26,117	(8)	26,109
Professional services	9,389	-	46	13,317	22,752	(46)	22,706
Depreciation and amortization	8,438	-	17	145	8,600	(17)	8,583
Interest, net	5,792	-	-	-	5,792	-	5,792
Utilities	3,000	-	-	-	3,000	-	3,000
Insurance	1,438	-	-	502	1,940	-	1,940
Hospital quality assurance fee	9,101	-	-	-	9,101	-	9,101
Other	10,060	-	57	2,117	12,234	(57)	12,177
Total operating expenses	256,678	-	260	25,051	281,989	(260)	281,729
Operating income (loss)	5,368	-	200	(10,282)	(4,714)	-	(4,714)
OTHER INCOME							
Investment income	313	-	5	-	318	-	318
Total other income	313	-	5	-	318	-	318
EXCESS (DEFICIT) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSE	$ 5,681	$ -	$ 205	$ (10,282)	$ (4,396)	$ -	$ (4,396)