

**Washington Township**  
**Health Care District**  
Financial Statements  
June 30, 2018 and 2017

# Washington Township Health Care District

## Index

June 30, 2018 and 2017

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## **Report of Independent Auditors**

To Board of Directors  
Washington Township Health Care District

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Washington Township Health Care District (the "District"), which comprise the statements of net position as of June 30, 2018 and June 30, 2017, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Washington Township Health Care District as of June 30, 2018 and June 30, 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the District changed the manner in which it accounts for postemployment benefits other than pensions in 2018. Our opinion is not modified with respect to this matter.

***Other Matter***

The accompanying management's discussion and analysis on pages 3 through 22 and the required supplemental information on pages 64 through 67 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Priscilla A. Hunter-Cox* LL.B.

November 26, 2018

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## 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 discrete financial entities, operating as a financial whole. Readers should also review the accompanying notes to the financial statements as they provide additional information that is essential to a full understanding of the District's and Foundation's financial statements.

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, and is considered a Local Government Agency. The District's mission is to provide broad healthcare services to its residents. The District's boundaries encompass an area of approximately 124 square miles in southern Alameda County. The District operates Washington Hospital (the Hospital), a 341-bed licensed acute care hospital located in Fremont, California.

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.

DEVCO is the sole corporate member of Washington Township Medical Foundation (WTMF). WTMF was formed on November 1, 2010 to operate a multi-specialty medical clinic under the applicable provisions of the California Health and Safety Code.

Both DEVCO and WTMF are considered component units of the District, and are blended in the District's financial statements.

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.

The statements of net position, the statements of revenues, expenses, and changes in net position, and statements of cash flows provide an indication of the District's and Foundation's financial health. The statements of net position include all of the District's and Foundation's assets, deferred outflows of resources, liabilities and deferred inflows of resources, using the accrual basis of accounting, as well as an indication about which portions of net position 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 position report all of the revenues and expenses and increases and decreases in net position 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.

## **Washington Township Health Care District**

### **District Financial Highlights for Fiscal Year 2018**

- During the twelve months ended June 30, 2018 (fiscal year 2018), the District adopted Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (OPEB)* (GASB 75). This adoption was similar to the District's fiscal 2014 adoption of GASB 68, which applied to pension plans, except that GASB 75 applies to reporting for the costs and obligations related to the District's Retiree Medical Benefits

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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Plans. The adoption of GASB 75 required retroactive restatements of certain amounts reported as of July 1, 2016, with related impacts on the ending balances as of June 30, 2017.

Prior to the adoption of GASB 75, the District reported an OPEB liability only for the cumulative amount of unfunded actuarially required contributions, consistent with prior accounting standards. Under GASB 75, the entire unfunded OPEB liability is required to be recognized and reported as an obligation in the financial statements of the District. Previously, this information was disclosed as supplemental information only. Adoption of GASB 75 resulted in the recognition of an additional \$22.2 million OPEB-related liability and a corresponding reduction in unrestricted net position as of July 1, 2016. The restated OPEB expense for the twelve months ended June 30, 2017 (fiscal year 2017) under GASB 75 was \$1.1 million greater than the amount calculated under the previous guidance.

- The District generated operating income of \$19.0 million for fiscal year 2018, compared with operating income of \$11.5 million for fiscal year 2017, an increase of \$7.5 million. When non-operating revenues, expenses and special items are included, the District realized a \$28.0 million increase in net position for fiscal year 2018, compared with an increase of \$16.8 million for fiscal year 2017.
- Major items that impacted the District's operating results for fiscal year 2018, as compared to those for fiscal year 2017, included:
  - Net patient revenues increased \$15.6 million (3.2 percent), due primarily to improved collections, increases in supplemental funding receipts and decreases in previously recorded reserves.
  - Other revenue increased \$0.9 million due to additional contributions received from the Foundation. Current year donations of \$4.1 million were primarily related to the Morris Hyman Critical Care Pavilion (the Hyman Pavilion). The Hyman Pavilion has been under construction for the past several years and is nearing completion, with a projected opening date in fall 2018.
  - Operating expenses increased \$9.0 million (1.8 percent), with salaries and benefits increasing by \$14.1 million (5.1 percent), professional fees decreasing by \$5.0 million (7.2 percent), and the total of all other expenses remaining consistent with the comparable total for the prior year.

## **Analysis of the District's Net Position – Fiscal Year 2018**

- Total assets increased \$19.4 million, from \$1,120.0 million at June 30, 2017 to \$1,139.4 million at June 30, 2018. Total available cash and investments decreased \$44.1 million, from \$353.8 million to \$309.7 million. Capital assets, net, increased \$58.1 million, from \$680.4 million to \$738.5 million due primarily to ongoing construction costs related to the Hyman Pavilion.
- Total liabilities decreased \$14.4 million, from \$833.6 million at June 30, 2017 to \$819.2 million at June 30, 2018. Accounting for the majority of this decrease, the net pension liability decreased by \$19.4 million, from \$61.8 million to \$42.4 million. Current liabilities increased by \$7.0 million from \$122.0 million to \$129.0 million, attributable primarily to increases in the current portion of long-term debt (\$1.9 million) and related interest payable (\$1.8 million) and a \$3.0 million increase in accounts payable and accrued expenses. Although the obligation for post-retirement employee medical benefits increased by \$7.5 million, decreases in the current portion of principal payments due, along with amortization of issuance discounts and premiums, reduced outstanding long-term debt obligations by \$9.0 million.
- Total net position of \$342.8 million at June 30, 2018 was \$28.0 million more than the net position of \$314.8 million at June 30, 2017.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

Table 1 provides a summary of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2018, 2017 and 2016:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>			
Current assets	\$ 175,338	\$ 180,465	\$ 180,338
Long-term investment and restricted funds	222,586	251,321	372,693
Capital assets, net	738,497	680,394	517,761
Other assets	2,992	7,808	8,614
Total assets	<u>1,139,413</u>	<u>1,119,988</u>	<u>1,079,406</u>
Deferred outflows of resources	<u>44,150</u>	<u>38,609</u>	<u>33,111</u>
Total assets and deferred outflows of resources	<u>\$ 1,183,563</u>	<u>\$ 1,158,597</u>	<u>\$ 1,112,517</u>
<b>Liabilities</b>			
Current liabilities	\$ 129,041	\$ 121,987	\$ 130,325
Net pension liability	42,389	61,754	52,960
Net postemployment medical benefits (OPEB)	70,252	62,800	34,907
Long-term debt	571,031	580,067	546,633
Other long-term liabilities	6,445	6,950	10,918
Total liabilities	<u>819,158</u>	<u>833,558</u>	<u>775,743</u>
Deferred inflows of resources	<u>21,603</u>	<u>10,262</u>	<u>16,614</u>
<b>Net position</b>			
Net investment in capital assets	222,739	215,399	160,811
Restricted - expendable	32,216	27,614	27,842
Restricted for minority interest	4,799	4,527	4,783
Unrestricted	83,048	67,237	126,724
Total net position	<u>342,802</u>	<u>314,777</u>	<u>320,160</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 1,183,563</u>	<u>\$ 1,158,597</u>	<u>\$ 1,112,517</u>

In 2018, the District's available cash and investments decreased by \$44.1 million.

Table 2 provides a summary of total available cash and investments as of June 30, 2018, 2017 and 2016.

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents and short-term investments	\$ 87,075	\$ 102,447	\$ 92,974
Board-designated fund – funded depreciation	147,128	115,571	163,067
Workers' compensation fund	8,593	11,898	11,998
Unexpended capital bond funds, excluding amounts required for current liabilities	64,063	121,051	194,827
Specific purpose fund	2,802	2,801	2,801
Total available cash and investments	<u>\$ 309,661</u>	<u>\$ 353,768</u>	<u>\$ 465,667</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 Board-designated funds for future needs.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## ***Capital Assets, Net (2018)***

Capital assets, net, increased \$58.1 million, from \$680.4 million at June 30, 2017 to \$738.5 million at June 30, 2018. This increase resulted from \$79.2 million in capital additions and \$17.0 million in net capitalized interest expense, offset by \$38.1 million in depreciation. The net capital additions included \$4.5 million in equipment, building, and land improvements combined with an increase of \$91.7 million in construction in progress, primarily related to the Hyman Pavilion project, which is running on-time and on-budget. At June 30, 2018, outstanding commitments related to capital projects totaled \$36 million.

## ***Debt Administration (2018 and 2017)***

As part of the obligations under the bond indentures for the 2009, 2010, 2015, 2017A and 2017B Series Revenue Bonds, the District has agreed that the Hospital will maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. As of June 30, 2018, the Hospital's long-term debt service coverage ratio was 4.3 to 1.0. For the year ended June 30, 2017, the Hospital's long-term debt coverage ratio was 3.8 to 1.0. During the years ended June 30, 2018 and 2017, the Hospital's Moody's rating of Baa1 (outlook stable) for its revenue bonds was unchanged.

The Hospital's percentage of debt-to-capitalization, excluding general obligation bonds, of 32.1 percent at June 30, 2018, was lower than the percentage of 35.0 percent at June 30, 2017. The decrease in percentage reflects the combined effect of the \$6.9 million reduction in outstanding debt, excluding general obligation bonds, and the \$48.5 million increase in the Hospital's net position.



**Washington Township Health Care District  
Management's Discussion and Analysis  
Years Ended June 30, 2018 and 2017 (unaudited)**

**Revenue and Expense Analysis for the District – Fiscal Year 2018**

Table 3 shows the revenues, expenses, and changes in net position for the District for the years ended June 30, 2018, 2017 and 2016:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating revenues</b>			
Net patient service revenues	\$ 505,529	\$ 489,952	\$ 473,131
Other	15,655	14,752	9,986
Total operating revenues	<u>521,184</u>	<u>504,704</u>	<u>483,117</u>
<b>Operating expenses</b>			
Salaries and wages	209,685	201,339	193,549
Employee benefits	80,189	74,411	69,380
Supplies	60,562	58,701	56,005
Professional fees	65,044	70,077	62,654
Purchased services	38,752	38,212	35,847
Depreciation	34,032	34,807	34,355
Insurance	1,218	1,264	1,586
Other operating expenses	12,748	14,415	12,644
Total operating expenses	<u>502,230</u>	<u>493,226</u>	<u>466,020</u>
Operating income	18,954	11,478	17,097
Non-operating revenues and expenses, net	<u>10,304</u>	<u>6,947</u>	<u>8,969</u>
Increase in net position before minority interest and restricted funds	29,258	18,425	26,066
Minority interest distributions	(1,234)	(1,608)	(1,170)
Special Use Grant	1	-	-
Increase in net position	<u>28,025</u>	<u>16,817</u>	<u>24,896</u>
<b>Net position</b>			
Beginning of year	314,777	320,160	295,264
Impact of adoption of GASB 75	-	(22,200)	-
End of year	<u>\$ 342,802</u>	<u>\$ 314,777</u>	<u>\$ 320,160</u>

**Net Patient Service Revenues**

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. These government payors account for approximately 70 percent of the District's gross revenues. Commercial preferred provider organizations (PPOs) and health maintenance organizations (HMOs) together comprise approximately 27 percent of gross revenues, with the balance of gross revenues attributable to uninsured individuals.

Net patient service revenues increased by \$15.6 million (3.2 percent), from \$489.9 million in fiscal year 2017 to \$505.5 million in fiscal year 2018.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## ***Inpatient Business Activity***

The District's gross inpatient revenue decreased by \$47.2 million (3.1 percent), from \$1,542.5 million in fiscal year 2017 to \$1,495.3 million in fiscal year 2018.

Table 4 presents the patient days for each year and the percentage changes:

	2018 Days	2017 Days	% Change
<b>Specialty</b>			
Medical/surgical	45,094	46,748	(3.5)%
Critical care	6,663	7,073	(5.8)%
Special care nursery	1,521	1,499	1.5 %
Pediatrics	332	405	(18.0)%
Obstetrics	4,722	4,935	(4.3)%
Subtotal adult and pediatric patient days	58,332	60,660	(3.8)%
Newborn	3,408	3,765	(9.5)%
Total patient days	61,740	64,425	(4.2)%

Although admissions increased by 218 (1.8 percent) from 12,223 in fiscal year 2017 to 12,441 in fiscal year 2018, the average length of stay decreased 5.5 percent, from 4.90 to 4.63 days, resulting in a decrease in adult and pediatric patient days of 2,328 (3.8 percent), as indicated in Table 4 above.

The overall case mix index for the District, which is a measure of patient acuity, decreased to 1.484 in fiscal year 2018, as compared to 1.527 in fiscal year 2017. The Medicare case mix index for the same period decreased from 1.696 to 1.657.

Inpatient surgeries decreased by 195 (5.6 percent), from 3,487 in fiscal year 2017 to 3,292 in fiscal year 2018.

Inpatient cardiac catheterization procedures decreased by 56 (2.8 percent), from 2,018 to 1,962.

Deliveries decreased by 75 (4.3 percent), from 1,730 to 1,655.

## ***Outpatient Business Activity***

The District's gross outpatient revenue decreased by \$35.2 million (5.5 percent), from \$645.1 million in fiscal year 2017 to \$609.9 million in fiscal year 2018. A change in the contract arrangement for provision of emergency department physician services accounted for \$20.1 million of the decrease in these revenues. In fiscal year 2018, the hospital contracted with a new provider group. Under the new contract arrangement, the physicians bill for their own professional services and process and retain their own billing and collections. This contract change also resulted in a decrease in professional fees expense as described below.

Emergency room visits decreased by 1,490 (2.8 percent) from 53,325 in fiscal year 2017 to 51,835 in fiscal year 2018; however, outpatient visits increased by 4,396 (5.3 percent) from 82,609 to 87,005.

Outpatient catheterization lab procedures decreased by 476 (19.7 percent) from 2,416 to 1,940. Outpatient surgeries performed at the hospital in fiscal year 2018 decreased by 23 (2.3 percent), from 1,016 to 993.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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Outpatient visits at Washington Township Medical Foundation increased by 9,242 (5.6 percent) from 165,955 in fiscal year 2017 to 175,197 in fiscal year 2018.

## ***Deductions from Revenue***

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 73.93 percent and 75.87 percent for fiscal year 2018 and 2017, respectively. The decrease resulted from contract rate increases, improvements in collections, additional supplemental funds received, and reductions in prior year estimates.

## ***Charity Care***

The District provides care without charge to all 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 \$4.1 million and \$3.3 million in foregone charges related to charity care for patient services during fiscal years 2018 and 2017, respectively. Patients who are eligible for charity care are generally those without insurance who also meet income eligibility criteria. Private pay revenues increased to \$49.0 million in fiscal year 2018 from \$41.6 million in fiscal year 2017.

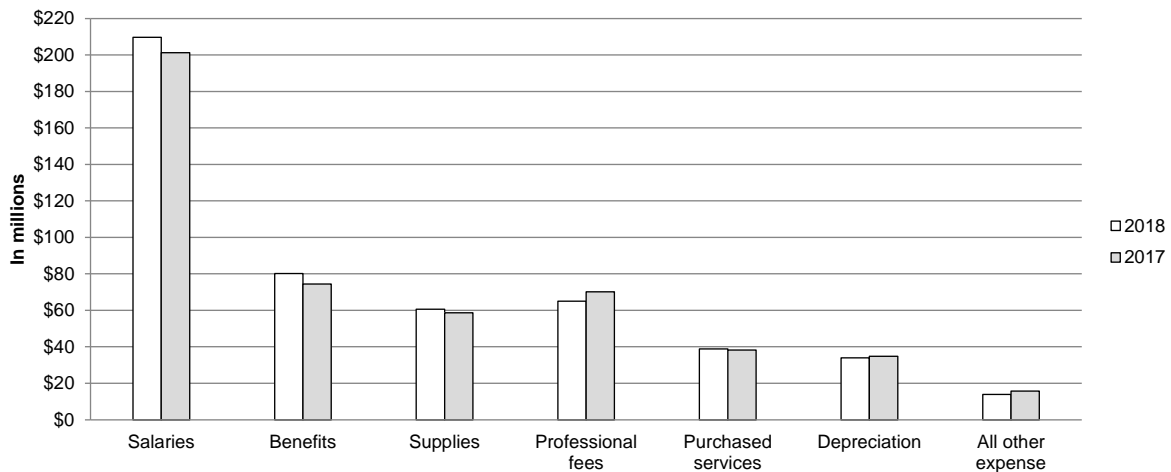
In addition to the charity care described above, the estimated cost in excess of reimbursement for indigent patients under Medi-Cal and Medi-Cal managed care programs was \$57 million and \$55 million in fiscal years 2018 and 2017, respectively, and uncompensated services with an estimated total cost of more than \$128 million in fiscal year 2018 and \$123 million in fiscal year 2017, were provided to Medicare and Medicare managed care patients.

## ***Provision for Bad Debt***

The provision for bad debt (expressed as a percentage of gross revenues) was 2.01 percent in fiscal year 2018, compared to 1.70 percent in fiscal year 2017.

## ***Operating Expenses***

Total operating expenses were \$502.2 million and \$493.2 million for fiscal years 2018 and 2017, respectively, as summarized in the graph below:



# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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Total operating expenses increased by 9.0 million (1.8 percent) from 2017 to 2018, with the largest dollar increase (\$8.3 million) attributable to salaries and wages expense, and the next largest dollar increase attributable to benefits (\$5.8 million). Offsetting these increases, professional fees decreased in fiscal year 2018 by \$5.0 million.

## ***Salaries and Wages***

- Salaries and wages increased by \$8.3 million (4.1 percent). As of June 2018, approximately 64 percent of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various Memoranda of Understanding (MOU) that have been approved by the District's Board of Directors. Increases under the MOUs, which the District considers to be in line with the current local wage environment, accounted for the majority of the increase in salaries expense.
- Total District FTEs at June 30, 2018 were 1,701, an increase of 32 FTEs (1.9 percent) over the 1,669 FTEs at June 30, 2017. The Hospital FTEs at June 30, 2018 were 1,429, an increase of 16 FTEs (1.1 percent) over the 1,413 FTEs at June 30, 2017.
- Benefits expense increased by \$5.8 million (7.8 percent). The overall rate of increase in benefit costs exceeded the rate of wage increases, with significant increases experienced in health insurance claims costs (\$4.1 million), employer payroll taxes (\$0.6 million) and payments related to the Hospital's deferred contribution plan (\$0.3 million).

## ***Other Operating Expenses***

- Supplies expense increased \$1.9 million (3.2 percent) in fiscal year 2018, with the majority of the increase related to expenses for intravenous solutions and pharmaceuticals. The ongoing nationwide shortage of intravenous solutions resulted in the need to use alternative vendors, often charging significantly higher amounts, to meet patient needs. The total cost for intravenous solutions increased in fiscal year 2018 by \$0.9 million (152.9 percent) over fiscal year 2017. Pharmaceutical supplies expense increased by \$0.8 million (8.2 percent). Professional fees, primarily fees paid for physician medical services, decreased by \$5.0 million (7.1 percent) in fiscal year 2018. In fiscal year 2018, the Hospital contracted with a new emergency department physician provider group. Under the new contract arrangement, the physicians bill for their own professional services and process their own billing and collections. This change also resulted in a related reduction in gross outpatient charges as described above. Other expenses, which include software maintenance fees, license fees, and postage decreased in fiscal year 2018 by \$1.7 million (11.8 percent). The individual expense with the largest decrease in this category was licenses and miscellaneous fees (\$0.8 million), which included employer reinsurance fees under the ACA. These fees ended after calendar year 2017.

## ***Non-operating Revenues and Expenses, net***

Non-operating revenues and expenses, net, increased \$3.4 million in fiscal year 2018. The most significant changes in non-operating activity for fiscal year 2018 were the following items:

- Net interest expense decreased by \$1.7 million. Although total interest cost for fiscal year 2018 was virtually the same as for fiscal year 2017, capitalized interest for fiscal year 2018 increased by \$1.6 million over the amount for fiscal year 2017, resulting in lower net interest expense.
- Bond issuance costs of \$1.3 million were incurred in fiscal year 2017 in relation to additional revenue bonds being issued and/or refinanced. No such costs were incurred in fiscal year 2018.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## Payments from Federal and State Health Care Programs

Entities doing business with governmental payors, including Medicare and Medicaid (Medi-Cal in California), are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence) for several years beyond the year in which services were rendered and/or fees received.

Moreover, interpretation of the myriad of government regulations and other requirements is subject to a large degree of subjectivity. For example, individual reviewers or auditors might disagree on a patient's principal medical diagnosis, the medical necessity of a clinical procedure or the appropriate code for that procedure. Such disagreements might have a significant effect on the ultimate amount of reimbursement due from the government. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, the District estimates the amount of revenue that will ultimately be received under the Medicare and Medi-Cal programs. Amounts ultimately received or paid may vary from these estimates.

## Health Care Reform

In 2012, the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2012 (collectively the "Affordable Care Act" or "the ACA") were signed into law. The Affordable Care Act addressed a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The coverage expansion was accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordable Care Act also included incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system.

The ACA has been the subject of much political debate and disagreement and the current health care landscape remains heavily politicized and highly volatile. Efforts to repeal and replace the ACA have been unsuccessful, in part due to the millions of people who would lose coverage under any of the proposals that have been brought forth. Despite having been unsuccessful in repealing the entire ACA, Congress was able to eliminate the penalty for not having health insurance, and the administration issued new rules making it easier for people to buy cheaper insurance that covers fewer health care services. In light of the continued changes and uncertainty in the healthcare environment, it continues to be exceedingly difficult for providers to make short-term plans or projections, much less make longer term forecasts.

In 2013, automatic spending reduction provisions of the Budget Control Act of 2011 went into effect and they remain in effect as of June 30, 2018. These spending reductions, also known as sequestration reductions, resulted in an on-going two percent reduction in all Medicare spending. For each of the fiscal years ended June 30, 2018 and 2017, the reduction in reimbursement was \$2.0 million.

# **Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)**

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In addition to sequestration reductions, Medicare Disproportionate Share (DSH) payments to eligible hospitals were significantly reduced in 2014. For fiscal years 2018 and 2017, DSH payments received were \$6.2 million and \$5.9 million, respectively.

## **Meaningful Use of Electronic Health Records**

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that demonstrated meaningful use of certified electronic health record ("EHR") technology to improve quality, efficiency and patient safety. In fiscal years 2018 and 2017, revenues recognized related to Meaningful Use were not significant. Beginning in fiscal year 2018 for Medicare EHR and in fiscal year 2019 for Medi-Cal EHR, the District will no longer be eligible for additional incentive funding, as the Meaningful Use Programs are entering the penalty phase. The District will continue to be required to report on a specified list of quality measures; failure to comply with these reporting requirements will result in downward payment adjustments.

## **Economic Factors Expected to Affect the District's 2019 Operations**

The Board of Directors of the District approved the fiscal year 2019 operating budget at their July 2018 meeting. The operating budget was developed after a review of key volume indicators and trends. The budget incorporates the District's current Institutional Agenda as well as economic factors, such as estimated population growth and unemployment rates.

The fiscal year 2019 budget anticipates a 7 percent increase in operating expenditures from the fiscal year 2018 level. This increase includes an 8.5 percent increase in salaries and wages, which includes the effects of an 8.3 percent projected increase in patient days, in combination with contractual salary increases. In addition, depreciation expense for fiscal year 2018 is projected to increase by approximately \$8.6 million (25 percent) primarily due to the opening of the Morris Hyman Critical Care Pavilion in the fall of 2018. In addition to the operating expense increases, interest expense is anticipated to increase by approximately \$11.5 million (165 percent) once the Hyman Pavilion is placed in service and related bond interest expense is no longer being capitalized.

At the same time, downward pressures on reimbursement are expected to continue. In estimating net revenues for fiscal year 2019, District staff has attempted to incorporate the continued effects of the changes in payments from government, commercial and third party payors, based on the available information. Likewise, the future state of the Bay Area economy, which is also difficult to predict, could have a significant impact on the District's operations. Additional legislation at either the State or Federal level may affect the accuracy of many of the assumptions included in the budget estimate.

## **Washington Hospital Healthcare Foundation**

### **Foundation Financial Highlights for Fiscal Year 2018**

- Total assets of \$7.9 million at June 30, 2018 decreased by \$0.2 million from the balance at June 30, 2017 of \$8.1 million. Total cash and investments decreased \$1.9 million, from \$6.8 million to \$4.9 million, while net contributions receivable increased \$1.7 million from \$1.3 million to \$3.0 million.
- Net assets of \$7.9 million at June 30, 2018 were \$0.2 million lower than at June 30, 2017.

**Washington Township Health Care District  
Management's Discussion and Analysis  
Years Ended June 30, 2018 and 2017 (unaudited)**

**Analysis of the Foundation's Net Assets – Fiscal Year 2018**

Table 5 provides a summary of the Foundation's assets, liabilities, and net assets as of June 30, 2018, 2017 and 2016:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,550	\$ 1,230	\$ 612
Contributions receivable, net	2,962	1,324	1,143
Short term investments held by district on behalf of foundation	2,860	3,807	4,276
Long term investments, unrestricted	-	107	104
Prepaid expenses and other	-	-	1
Investments	535	1,619	1,432
Total assets	<u>\$ 7,907</u>	<u>\$ 8,087</u>	<u>\$ 7,568</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	<u>\$ 26</u>	<u>\$ 26</u>	<u>\$ 97</u>
Total liabilities	<u>26</u>	<u>26</u>	<u>97</u>
<b>Net assets</b>			
Restricted - expendable	7,848	7,723	7,074
Unrestricted	33	338	397
Total net assets	<u>7,881</u>	<u>8,061</u>	<u>7,471</u>
Total liabilities and net assets	<u>\$ 7,907</u>	<u>\$ 8,087</u>	<u>\$ 7,568</u>

In fiscal year 2018, 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 \$1.9 million, from \$6.8 million at June 30, 2017 to \$4.9 million at June 30, 2018.

Table 6 provides a summary of cash and investments for the Foundation as of June 30, 2018, 2017 and 2016:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 1,550	\$ 1,230	\$ 612
Money market and certificates of deposit	535	533	529
Equity mutual fund	-	1,193	1,007
	<u>2,085</u>	<u>2,956</u>	<u>2,148</u>
LAIF held by District on behalf of Foundation	2,860	3,807	4,276
Total available cash and investments	<u>\$ 4,945</u>	<u>\$ 6,763</u>	<u>\$ 6,424</u>

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

## Revenue and Expense Analysis for the Foundation – Fiscal Year 2018

Table 7 shows the Foundation's activities and changes in net position for 2018, 2017 and 2016:

(in thousands)

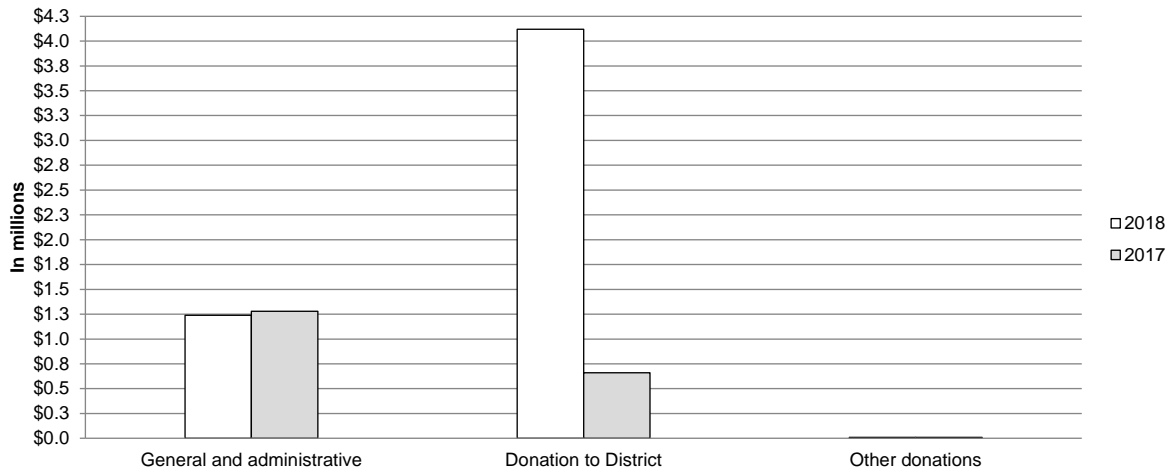
	2018			2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues, gains, and support</b>									
Contributions	\$ 5	\$ 4,518	\$ 4,523	\$ 3	\$ 1,612	\$ 1,615	\$ 39	\$ 839	\$ 878
Contributed services	545	27	572	670	32	702	249	23	272
Investment income	92	-	92	58	-	58	41	-	41
Unrealized gain (loss) on investments	-	-	-	163	-	163	2	-	2
	642	4,545	5,187	894	1,644	2,538	331	862	1,193
Net assets released from restrictions	4,450	(4,450)	-	1,021	(1,021)	-	817	(817)	-
Total revenues, gains, and support	5,092	95	5,187	1,915	623	2,538	1,148	45	1,193
<b>Expenses</b>									
General and administrative	1,235	-	1,235	1,276	-	1,276	799	-	799
Donation to Pathways Hospice	5	-	5	10	-	10	-	-	-
Donation to HERS Breast Cancer Foundation	-	-	-	-	-	-	4	-	4
Donation to Washington Hospital Service League	8	-	8	3	-	3	-	-	-
Donation to District	4,119	-	4,119	659	-	659	459	-	459
Total expenses	5,367	-	5,367	1,948	-	1,948	1,262	-	1,262
Increase (decrease) in net position	(275)	95	(180)	(33)	623	590	(114)	45	(69)
<b>Net position</b>									
Beginning of year	338	7,723	8,061	397	7,074	7,471	571	6,969	7,540
Transfers	(30)	30	-	(26)	26	-	(60)	60	-
End of year	\$ 33	\$ 7,848	\$ 7,881	\$ 338	\$ 7,723	\$ 8,061	\$ 397	\$ 7,074	\$ 7,471

### Revenues, Gains and Support

The Foundation's total revenues, gains and support more than doubled from \$2.5 million in fiscal year 2017 to \$5.2 million in fiscal year 2018. A few individually large gifts towards the Hyman Pavilion, which was nearing completion as of the end of fiscal year 2018, in addition to a highly successful employee giving campaign effort, accounted for the significant increase. Contributions of \$4.5 million in fiscal year 2018 were \$2.9 million more than the \$1.6 million recorded in fiscal year 2017.

### Expenses

Total expenses for the Foundation increased by \$3.4 million from \$2.0 million for fiscal year 2017 to \$5.4 million in fiscal year 2018 (including the transfer of \$3.8 million in funds designated for equipment for the Hyman Pavilion), as summarized in the graph below:





# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## District Financial Highlights for Fiscal Year 2017 (Restated for adoption of GASB 75 in fiscal year 2018)

- The District generated operating income of \$11.5 million for fiscal year 2017, compared with operating income of \$17.1 million for fiscal year 2016, a decrease of \$5.6 million. When non-operating revenues, expenses and special items are included, the District realized a \$16.8 million increase in net position for the twelve months ended June 30, 2017, compared with an increase of \$24.9 million for the previous twelve month period.
- Major items that impacted the District's operating results for the fiscal year ended June 30, 2017 (fiscal year 2017), as compared to those for the fiscal year ended June 30, 2016 (fiscal year 2016), included:
  - Net patient revenues increased \$16.8 million (3.6 percent), due to increased patient activity, offset by an increased percentage of patients covered by government payors.
  - Other revenue increased \$4.8 million due to amounts related to the new California Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program. The PRIME Program is a five-year initiative under the State of California's Medi-Cal 2020 Section 1115 waiver. Section 1115 waivers allow a state to use federal Medicaid funds in ways that are not otherwise allowed under federal rules, in order to test and implement coverage approaches that promote Medicaid program objectives.
  - Operating expenses increased \$27.2 million (5.8 percent), with salaries and benefits increasing by \$12.8 million (4.9 percent), professional fees increasing by \$7.4 million (11.8 percent) and all other expenses increasing by a net amount of \$7.0 million (5.0 percent) in total.
- Regarding the District's net position as of June 30, 2017, the most significant change resulted from the purchase of the Fremont Office Center in January 2017, comprising two office buildings adjacent to the Hospital's main campus, which unexpectedly became available at the end of calendar year 2016. This purchase resulted in a shift in net position from unrestricted net position to net investment in capital assets. The purchase will provide additional income to the District and allow for future growth of the healthcare system.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## **Analysis of the District's Net Position – Fiscal Year 2017**

- Total assets increased \$40.5 million, from \$1.079 billion at June 30, 2016 to \$1.120 billion at June 30, 2017. Total cash and investments decreased by \$111.9 million, from \$465.7 million to \$353.8 million. Net capital assets increased \$162.6 million, from \$517.8 million to \$680.4 million. The reduction in cash and investments is a result of the increase in capital assets, the two largest components of which were the purchase of the Fremont Office Center in January 2017 for \$58.6 million and additional CIP expenditures, primarily related to the ongoing construction of the Morris Hyman Critical Care Pavilion (the Hyman Pavilion). The Hyman Pavilion is currently on track for completion in calendar year 2018.
- Total liabilities increased \$57.8 million, from \$775.7 million at June 30, 2016 to \$833.5 million at June 30, 2017. The OPEB liability increased by \$27.9 million, of which \$21.6 million was attributable to the adoption of GASB 75. Accounting for the majority of the remaining increase, long-term debt, net of current maturities, increased by \$33.5 million, from \$546.6 million to \$580.1 million, as a result of the issuance of additional revenue bonds. Liabilities related to pension and other long-term obligations increased by \$4.8 million from \$63.9 million to \$68.7 million. Current liabilities decreased by \$8.3 million from \$130.3 million to \$122.0 million attributable primarily to a lower level of accrued payroll liabilities at June 30, 2017.
- Total net position of \$314.8 million at June 30, 2017 was \$5.4 million less than the net position of \$320.2 million at June 30, 2016. As noted previously, the adoption of GASB 75 accounted for a \$22.2 million decrease in net position as of July 1, 2016 and \$1.1 million in additional OPEB expense for fiscal year 2017, for a combined impact of \$23.3 million on net position as of June 30, 2017.

## **Capital Assets, Net – Fiscal Year 2017**

Net capital assets increased \$162.6 million, from \$517.8 million at June 30, 2016 to \$680.4 million at June 30, 2017. This increase resulted from \$182.7 million in capital additions and \$16.7 million in net capitalized interest expense, offset by \$36.7 million in depreciation. The net capital additions included \$17.1 million in land, \$45.2 million in equipment, building, and land improvements combined with an increase of \$137.1 million in construction in progress, primarily related to the Hyman Pavilion project. At June 30, 2017, outstanding commitments related to capital projects totaled \$70 million.

## **Debt Administration – Fiscal Year 2017**

As part of the obligations under the bond indentures for the 2009, 2010, 2015, 2017A and 2017B Series Revenue Bonds, the District has agreed that the Hospital will maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. As of June 30, 2017, the Hospital's long-term debt service coverage ratio was 3.8 to 1.0. During the year ended June 30, 2017, the Hospital's Moody's rating for its revenue bonds was Baa1 (outlook stable).

The Hospital's percentage of debt-to-capitalization, excluding general obligation bonds, of 35.0 percent at June 30, 2017, was higher than the percentage of 32.4 percent at June 30, 2016, reflecting the effects of the refunding of the 2007 Revenue Bonds (replaced by the 2017B Revenue Refunding Bonds), the issuance of the new money 2017A Revenue Bonds and the \$23.3 million impact of implementing GASB 75.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## Revenue and Expense Analysis for the District – Fiscal Year 2017

### **Net Patient Service Revenues**

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. These government payors account for approximately 71 percent of the District's gross revenues. Commercial preferred provider organizations (PPOs) and health maintenance organizations (HMOs) together comprise approximately 27 percent of gross revenues, with the balance of gross revenues attributable to uninsured individuals.

Net patient service revenues increased by \$16.9 million (3.6 percent), from \$473.1 million in fiscal year 2016 to \$490.0 million in fiscal year 2017.

### **Inpatient Business Activity**

The District's gross inpatient revenue increased by \$49.0 million (3.3 percent), from \$1.493 billion in fiscal year 2016 to \$1.543 billion in fiscal year 2017.

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

	2017 Days	2016 Days	% Change
<b>Specialty</b>			
Medical/surgical	\$ 46,748	\$ 42,160	10.9 %
Critical care	7,073	7,870	(10.1)%
Special care nursery	1,499	1,415	5.9 %
Pediatrics	405	379	6.9 %
Obstetrics	4,935	5,350	(7.8)%
Subtotal adult and pediatric patient days	60,660	57,174	6.1 %
Newborn	3,765	3,995	(5.8)%
Total patient days	\$ 64,425	\$ 61,169	5.3 %

Although admissions increased only slightly from 12,185 in fiscal year 2016 to 12,223 in fiscal year 2017, the average length of stay increased 5.8%, from 4.63 to 4.90 days, resulting in an increase in adult and pediatric patient days of 3,486 (6.1 percent), as indicated in the table above.

The overall case mix index for the District, which is a measure of patient acuity, remained virtually unchanged at 1.527 in fiscal year 2017, as compared to 1.525 in fiscal year 2016. The Medicare case mix index decreased to 1.696 in fiscal year 2017 from 1.727 in fiscal year 2016.

Inpatient surgeries decreased by 50 (1.4 percent), from 3,537 in fiscal year 2016 to 3,487 in fiscal year 2017.

Inpatient cardiac catheterization procedures decreased by 75 (3.6 percent), from 2,093 to 2,018.

Deliveries decreased by 131 (7.0 percent), from 1,861 to 1,730.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## ***Outpatient Business Activity***

The District's gross outpatient revenue increased by \$20.3 million (3.2 percent), from \$624.8 million in fiscal year 2016 to \$645.1 million in fiscal year 2017.

Emergency room visits increased by 492 (0.9 percent) from 52,833 in fiscal year 2016 to 53,325 in fiscal year 2017; outpatient visits declined by 2,800 (3.3 percent) from 85,409 to 82,609.

Outpatient catheterization lab procedures increased by 91 (3.9 percent) from 2,325 to 2,416. Outpatient surgeries performed at the hospital in fiscal year 2017 decreased by 216 (17.5 percent), from 1,232 to 1,016. The outpatient surgery count for fiscal year 2016 includes additional cases performed during the five week period that the Washington Outpatient Surgery Center (WOSC) was closed due to water damage. The fiscal year 2017 outpatient surgery count is comparable to the fiscal year 2015 count of 1,001.

Outpatient visits at Washington Township Medical Foundation increased by 3,233 (1.9 percent) from 162,722 in fiscal year 2016 to 165,955 in fiscal year 2017.

## ***Deductions from Revenue***

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 75.87 percent and 75.63 percent for fiscal year 2017 and 2016, respectively. The increase resulted primarily from a slight increase in the proportion of patients covered by government payors, in particular Medi-Cal, and a decrease in the proportion of patients covered by commercial payors.

## ***Charity Care***

The District provides care without charge to all 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 \$3.3 million and \$5.2 million in foregone charges related to charity care for patient services during fiscal years 2017 and 2016, respectively. Patients who are eligible for charity care are generally those without insurance and with a family income at or below 350 percent of the Federal Poverty Level, as defined by the United States Department of Health and Human Services. Private pay revenues decreased to \$41.6 million in fiscal year 2017 from \$45.6 million in fiscal year 2016.

In addition to the charity care described above, the estimated cost in excess of reimbursement for patients covered by Medi-Cal and Medi-Cal HMO programs was \$55 million for both fiscal years 2017 and 2016, and the estimated cost in excess of reimbursement for services provided to Medicare and Medicare HMO patients was over \$123 million in fiscal year 2017 and over \$115 million in fiscal year 2016.

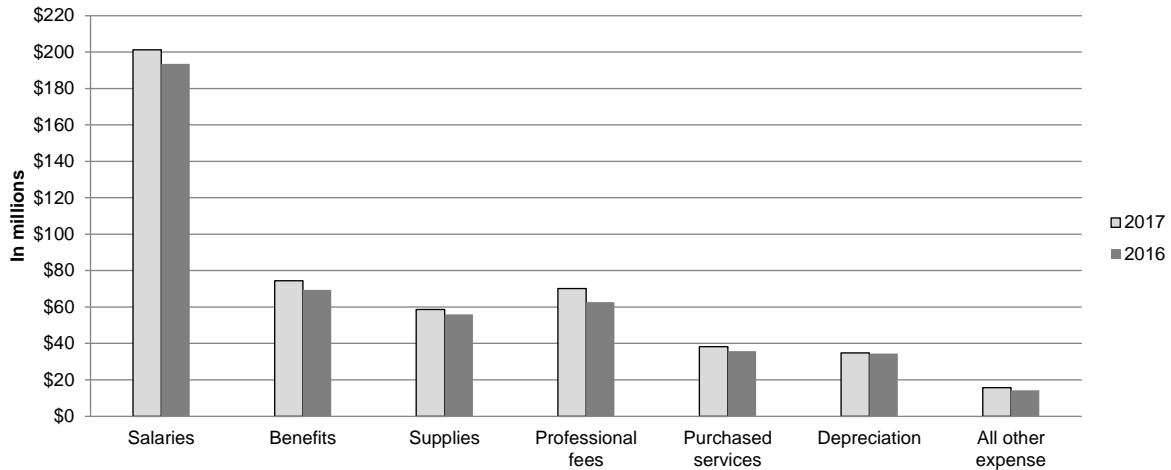
## ***Provision for Bad Debt***

The provision for bad debt (expressed as a percentage of gross revenues) was 1.70 percent in fiscal year 2017, compared to 1.98 percent in fiscal year 2016.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

## Operating Expenses

Total operating expenses were \$493.2 million and \$466.0 million for fiscal years 2017 and 2016, respectively, as summarized in the graph below:



Total operating expenses increased by \$27.2 million (5.8 percent) from 2016 to 2017, with the largest dollar increase (\$12.8 million) attributable to salaries and benefits expense, and the next largest dollar increase attributable to professional fees (\$7.4 million).

## Salaries and Wages

- Salaries and wages increased by \$7.8 million (4.0 percent). The District negotiated several union wage agreements in fiscal year 2016. After several years of modest wage rate inflation, increases under the new agreements were higher, reflecting the current local wage environment. The Hospital's FTEs at June 30, 2017 were 1,413, an increase of 21 FTEs (1.5 percent) over the 1,392 FTEs at June 30, 2016.
- As of June 2017, approximately 65 percent 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.
- Benefits expense increased by \$5.0 million (7.2 percent). Not only did the overall rate of increase in benefit costs exceed the rate of wage increases, reductions in multiple benefits expense categories were dramatically offset by approximately \$5.1 million (44.6 percent) in additional pension expenses in fiscal year 2017.

## Other Operating Expenses

- Supplies expense increased \$2.7 million (4.8 percent) in fiscal year 2017, with over half of the increase related to pharmaceutical costs. Professional fees, primarily fees paid for physician medical services, increased by \$7.4 million (11.9 percent), and purchased services increased by \$2.4 million (6.6 percent), in fiscal year 2017. Depreciation increased \$0.5 million (1.3 percent). Other expenses increased in fiscal year 2017 by \$1.8 million (14.0 percent) due primarily to increases in software maintenance fees.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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## ***Non-operating Income/Expense***

The most significant changes in non-operating activity for fiscal year 2017 were the following items:

- The decrease in the fair value of investments for fiscal year 2017 of \$2.7 million reflected a swing of \$3.6 million from the \$0.9 million increase in fair value experienced in fiscal year 2016.
- Net interest expense decreased by \$0.8 million. Capitalized interest for fiscal year 2017 increased by \$2.0 million over the amount for fiscal year 2016. This was offset by an increase in total interest expense of \$1.2 million related to the increase in the total amount of outstanding debt.
- Property tax revenues of \$16.1 million for fiscal year 2017 were \$0.3 million more than the \$15.8 million for fiscal year 2016.
- Bond issuance costs of \$1.3 million were incurred in fiscal year 2017 in relation to additional revenue bonds issued and refinanced. The fiscal year 2017 amount was \$0.4 million less than the bond issuance costs incurred in fiscal year 2016. The bond issuance costs were funded entirely from the respective bond proceeds.

## **Health Care Reform**

On March 23, 2012, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2012 the Health Care and Education Reconciliation Act of 2012 was signed, amending the PPACA (collectively the "Affordable Care Act" or "the ACA"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The coverage expansion is accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. .

On March 1, 2013, automatic spending reduction provisions of the Budget Control Act of 2011 went into effect and they remain in effect as of June 30, 2017. These spending reductions, also known as sequestration reductions, resulted in an on-going two percent reduction in all Medicare spending. For fiscal years ended June 30, 2017 and 2016, the reduction in reimbursement was \$2.0 million and \$1.9 million, respectively.

In addition to sequestration reductions, Medicare Disproportionate Share (DSH) payments to eligible hospitals have been significantly reduced in recent years. For fiscal years 2017 and 2016, DSH payments received were \$5.9 million and \$6.4 million, respectively.

# **Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)**

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## **Meaningful Use of Electronic Health Records**

The American Recovery and Reinvestment Act of 2009 established one-time incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. A hospital may receive an incentive payment for up to four years, by meeting a series of objectives that make use of EHR's potential related to the improvement of quality, efficiency and patient safety. Meaningful use is assessed on a year-by-year basis and requires attestation by the facility that the criteria have been satisfied. For fiscal years 2017 and 2016, respectively, the District's revenues included \$0.6 million and \$1.1 million in Medicare EHR. Based on the timing of the attestation process, the District did not recognize any Medi-Cal EHR revenues for fiscal year 2017.

## **Economic Factors Expected to Affect the District's 2018 Operations**

The Board of Directors of the District approved the fiscal year 2018 operating budget at their July 2017 meeting. The operating budget was developed after a review of key volume indicators and trends. The budget incorporates the District's current Institutional Agenda as well as economic factors, such as estimated population growth and unemployment rates.

The fiscal year 2018 budget anticipates a 3.4 percent increase in expenditures from the fiscal year 2017 level. This overall increase includes an 8.4 percent increase in salaries and wages, resulting from a 1.5 percent projected increase in inpatient days, in combination with contractual salary increases. Reductions in anticipated levels of professional fees, purchased services and operating interest expense mitigated the magnitude of the salary increase.

At the same time, downward pressures on reimbursement are expected to continue. In estimating net revenues for fiscal year 2018, District staff has attempted to incorporate the continued effects of the Affordable Care Act, based on the available information. Likewise, the future state of the Bay Area economy, which is also difficult to predict, could have a significant impact on the District's operations. Additional legislation at either the State or Federal level may affect the accuracy of many of the assumptions included in the budget estimate.

## **Washington Hospital Healthcare Foundation**

### **Foundation Financial Highlights for Fiscal Year 2017**

- Total assets of \$8.1 million at June 30, 2017 increased \$0.5 million from \$7.6 million at June 30, 2016. Total cash and investments increased \$0.4 million, from \$6.4 million to \$6.8 million, while net contributions receivable increased \$0.2 million from \$1.1 million to \$1.3 million.
- Net assets of \$8.1 million at June 30, 2017 increased \$0.6 million from \$7.5 million at June 30, 2016.

### **Analysis of the Foundation's Net Assets – Fiscal Year 2017**

Total Foundation assets of \$8.1 million at June 30, 2017 increased by \$0.5 million from \$7.6 million at June 30, 2016. Total Foundation liabilities decreased from \$0.1 million at June 30, 2016 to zero at June 30, 2017. The Foundation's net assets increased to \$8.1 million at June 30, 2017 from \$7.5 million at June 30, 2016.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (unaudited)

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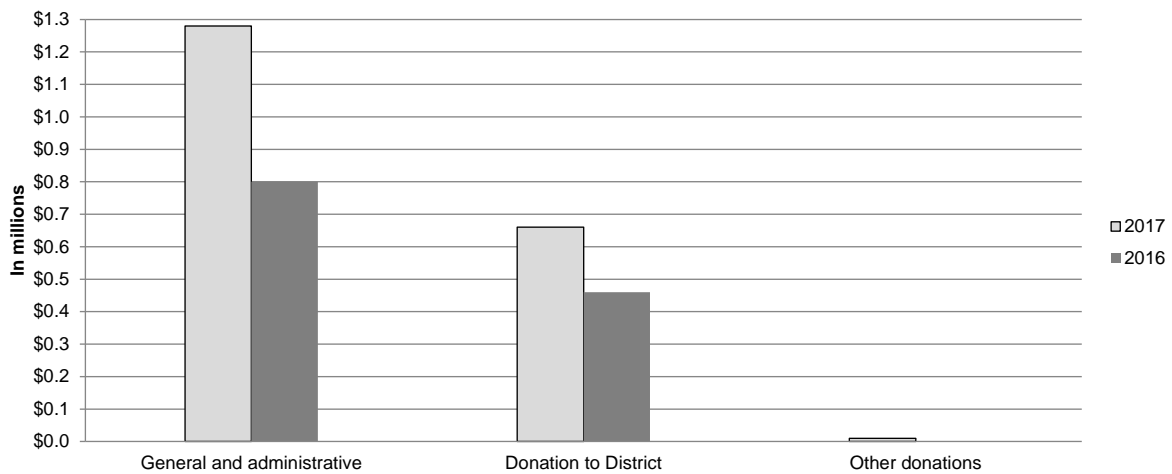
## Revenue and Expense Analysis for the Foundation – Fiscal Year 2017

### *Revenues, Gains and Support*

Total revenues, gains and support more than doubled from \$1.2 million in fiscal year 2016 to \$2.5 million in fiscal year 2017. Contributions of \$1.6 million in fiscal year 2017 were \$0.8 million more than the \$0.8 million recorded in fiscal year 2016.

### *Expenses*

Total expenses for the Foundation were \$2.0 million and \$1.3 million for fiscal years 2017 and 2016, respectively, as summarized in the graph below:





# Washington Township Health Care District

## Statements of Net Position

### June 30, 2018 and 2017

(in thousands)

	District		Foundation	
	2018	2017	2018	2017
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 33,307	\$ 52,402	\$ 1,550	\$ 1,230
Short-term investments	53,768	50,045	535	1,619
Short-term investments held by District on behalf of Foundation	-	-	2,860	3,807
Patient accounts receivable, less allowance for estimated uncollectibles of \$22,236 and \$20,756 in 2018 and 2017, respectively	65,794	64,628	-	-
Contributions receivable, net, due in less than 1 year	-	-	90	75
Due from third party payors	330	852	-	-
Supplies	3,530	3,262	-	-
Other receivables	11,602	4,139	-	-
Prepaid expenses and other	7,007	5,137	-	-
Total current assets	175,338	180,465	5,035	6,731
<b>Long-term investment and restricted funds</b>				
Board-designated for capital, debt and workers' compensation	155,721	127,469	-	-
Held by trustee	64,063	121,051	-	-
Restricted funds	2,802	2,801	-	-
Unrestricted	-	-	-	107
Capital assets, net	738,497	680,394	-	-
<b>Other assets</b>				
Contributions receivable, net, due in more than 1 year	-	-	2,872	1,249
Other noncurrent assets	2,992	7,808	-	-
Total assets	1,139,413	1,119,988	7,907	8,087
<b>Deferred outflows of resources</b>				
Deferred outflows of resources - goodwill	4,705	5,377	-	-
Deferred outflows of resources - postemployment medical benefits (OPEB)	7,471	-	-	-
Deferred outflows of resources - pension	31,974	33,232	-	-
Total deferred outflows	44,150	38,609	-	-
Total assets and deferred outflows of resources	\$ 1,183,563	\$ 1,158,597	\$ 7,907	\$ 8,087
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current portion of long-term debt	\$ 7,491	\$ 5,628	\$ -	\$ -
Accounts payable and accrued expenses	47,822	44,821	26	26
Due to foundation	2,860	3,807	-	-
Due to third party payors	6,466	9,894	-	-
<b>Accrued liabilities</b>				
Payroll related	11,310	10,245	-	-
Vacation	15,277	15,154	-	-
Health benefits	4,889	3,203	-	-
Interest	12,090	10,245	-	-
Other	20,836	18,990	-	-
Total current liabilities	129,041	121,987	26	26
<b>Long-term liabilities</b>				
Workers' compensation claims	6,445	6,950	-	-
Net pension liability	42,389	61,754	-	-
Net postemployment medical benefits (OPEB)	70,252	62,800	-	-
Long-term debt, net of current maturities	232,292	239,421	-	-
Long-term debt, general obligation bonds	338,739	340,646	-	-
Total long-term liabilities	690,117	711,571	-	-
Total liabilities	819,158	833,558	26	26
<b>Deferred inflows of resources</b>				
Deferred inflows of resources - postemployment medical benefits (OPEB)	1,387	1,716	-	-
Deferred inflows of resources - pension	20,216	8,546	-	-
Total deferred inflows	21,603	10,262	-	-
<b>Net position</b>				
Net investment in capital assets	222,739	215,399	-	-
Restricted - expendable	32,216	27,614	7,848	7,723
Restricted for minority interest	4,799	4,527	-	-
Unrestricted	83,048	67,237	33	338
Total net position	342,802	314,777	7,881	8,061
Total liabilities, deferred inflows of resources and net position	\$ 1,183,563	\$ 1,158,597	\$ 7,907	\$ 8,087

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

# Washington Township Health Care District

## Statements of Revenues, Expenses, and Changes in Net Position

### Years Ended June 30, 2018 and 2017

(in thousands)

	District		Foundation	
	2018	2017	2018	2017
<b>Operating revenues</b>				
Net patient service revenues	\$ 505,529	\$ 489,952	\$ -	\$ -
Other	11,536	14,093	-	-
Contributions	4,119	659	4,523	1,615
Contributed services	-	-	572	702
Total operating revenues	<u>521,184</u>	<u>504,704</u>	<u>5,095</u>	<u>2,317</u>
<b>Operating expenses</b>				
Salaries and wages	209,685	201,339	-	-
Employee benefits	80,189	74,411	-	-
Supplies	60,562	58,701	-	-
Professional fees	65,044	70,077	-	-
Purchased services	38,752	38,212	-	-
Depreciation	34,032	34,807	-	-
Insurance	1,218	1,264	-	-
Donations	-	-	4,132	672
Other operating expenses	12,748	14,415	1,235	1,276
Total operating expenses	<u>502,230</u>	<u>493,226</u>	<u>5,367</u>	<u>1,948</u>
Operating income (loss)	<u>18,954</u>	<u>11,478</u>	<u>(272)</u>	<u>369</u>
<b>Non-operating revenues and expenses</b>				
Investment income	3,494	2,882	92	58
Net increase (decrease) in the fair value of investments	(2,710)	(2,755)	-	163
Interest expense, including amortization of premiums and discounts on bonds payable	(6,984)	(8,688)	-	-
Property tax revenue	16,260	16,148	-	-
Bond issuance costs	-	(1,271)	-	-
Other non-operating income	244	631	-	-
Total non-operating revenues and expenses	<u>10,304</u>	<u>6,947</u>	<u>92</u>	<u>221</u>
Increase (decrease) in net position before other changes	29,258	18,425	(180)	590
Minority interest - distributions to	(1,234)	(1,608)	-	-
Special Use Grant	1	-	-	-
Increase (decrease) in net position after other changes	<u>28,025</u>	<u>16,817</u>	<u>(180)</u>	<u>590</u>
<b>Net position</b>				
Beginning of year	314,777	320,160	8,061	7,471
Impact of adoption of GASB 75	-	(22,200)	-	-
End of year	<u>\$ 342,802</u>	<u>\$ 314,777</u>	<u>\$ 7,881</u>	<u>\$ 8,061</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, 2018 and 2017

(in thousands)

	District		Foundation	
	2018	2017	2018	2017
<b>Cash flows from operating activities</b>				
Cash received from patient service activities	\$ 504,363	\$ 494,244	\$ -	\$ -
Other cash receipts	11,536	14,093	2,987	1,434
Cash payments to suppliers	(182,733)	(181,513)	(663)	(644)
Cash payments to employees and employee benefit programs	(293,618)	(281,945)	-	-
Net cash provided by (used in) operating activities	39,548	44,879	2,324	790
<b>Cash flows from noncapital financing activities</b>				
Donation from Foundation to District	4,119	659	(4,119)	(659)
Net assets distributed to minority shareholders in Washington Outpatient Surgery Center, LLC	(1,234)	(1,608)	-	-
Other donations	-	-	(13)	(13)
Net cash provided by (used in) noncapital financing activities	2,885	(949)	(4,132)	(672)
<b>Cash flows from capital and related financing activities</b>				
Purchases of capital assets	(79,151)	(181,478)	-	-
Principal paid on debt	(5,647)	(76,848)	-	-
Interest paid on debt	(25,099)	(27,514)	-	-
Proceeds from debt issuance, net of issuance costs	126	110,554	-	-
Proceeds from property taxes levied by the County	17,055	16,737	-	-
Net cash provided by (used in) capital and related financing activities	(92,716)	(158,549)	-	-
<b>Cash flows from investing activities</b>				
Purchases of investments	(195,945)	(324,405)	(3,070)	(58)
Sales of investments	218,247	442,466	5,290	500
Investment income	4,600	2,967	(92)	58
Other Non-operating income received	4,286	2,508	-	-
Net cash provided by (used in) investing activities	31,188	123,536	2,128	500
Net increase (decrease) in cash and cash equivalents	(19,095)	8,917	320	618
<b>Cash and cash equivalents</b>				
Beginning of year	52,402	43,485	1,230	612
End of year	\$ 33,307	\$ 52,402	\$ 1,550	\$ 1,230
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income (loss)	\$ 18,954	\$ 11,478	\$ (272)	\$ 369
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	34,032	34,807	-	-
Loss on disposal of fixed assets	35	36	-	-
Provision for doubtful accounts	42,345	37,084	-	-
Amortization of goodwill	672	673	-	-
Pension funding	(22,300)	(22,000)	-	-
Postemployment medical benefits (OPEB) funding	(5,994)	(1,412)	-	-
Net change in deferred outflows and inflows	9,628	(14,239)	-	-
Donations	(4,119)	(659)	4,132	672
Changes in assets and liabilities				
Accounts receivables	(43,511)	(32,792)	(1,536)	(181)
Supplies, prepaid expenses, and other current assets	(2,564)	1,877	-	1
Other assets	(2,009)	806	-	-
Due to foundation	(947)	(469)	-	-
Due from/to third party payors	(2,906)	160	-	-
Accounts payable and accrued expenses	2,931	(3,602)	-	(71)
Payroll, vacation, and health accrued liabilities	2,874	(4,864)	-	-
Other liabilities	12,427	37,995	-	-
Net cash provided by (used in) operating activities	\$ 39,548	\$ 44,879	\$ 2,324	\$ 790
<b>Noncash transactions</b>				
Capitalized interest	\$ 18,308	\$ 16,691	\$ -	\$ -
Accounts payable and accrued expenses for property and equipment purchases	25,654	25,584	-	-
Contributed services	-	-	572	702
Contributed investments	-	-	87	36

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

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### 1. Organization and Summary of Significant Accounting Policies

##### **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, and is considered a Local Government Agency (Local Agency). It is exempt from federal and state income taxes. The District's mission is to provide broad healthcare services to its residents. The District's boundaries encompass an area of approximately 124 square miles in southern Alameda County. The District operates Washington Hospital (the Hospital), a 341-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 also operates an outpatient rehabilitation center and an urgent care clinic. On July 1, 2010, DEVCO purchased a controlling interest in the Washington Outpatient Surgery Center, LLC (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 based on the extent of District management's involvement in, and oversight of, DEVCO's operations and financial activity.

DEVCO is the sole corporate member of Washington Township Medical Foundation (WTMF). WTMF was formed on November 1, 2010 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 based on the extent of District and DEVCO management's involvement and oversight of WTMF's operations and financial activity.

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 non-profit 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, 2018 and 2017

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#### **Accounting Standards**

##### ***District***

Pursuant to Government Accounting Standards Board ("GASB") Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, the accompanying financial statements have been prepared in accordance with the codified pronouncements and all subsequent applicable GASB pronouncements.

##### ***Foundation***

As a private non-profit organization, the Foundation reports under the Financial Accounting Standards Board (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 features. Other than minor nomenclature changes, no modifications have been made to the Foundation's financial information in the District's financial reporting entity for these differences.

#### **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 District's most significant estimates relate to patient accounts receivable allowances, amounts due to third-party payors, self-insurance liabilities and employee benefit costs. The Foundation's most significant estimates relate to allowances for uncollectible pledges and net present value of contributions receivable. Actual results may differ from those estimates.

#### **Reclassification**

During the preparation of the District's fiscal year 2018 financial statements, an error was identified in the classification of trustee-held funds for payment of debt service amounts due within a twelve month period, as presented in the statement of net position as of June 30, 2017. The error served to understate the amount of Short-term investments and Total current assets, and to overstate the amount of Long-term investment and restricted funds (Held by trustee) by \$16.2 million. This error also impacted Net position (Net investment in capital assets), which was overstated by \$16.2 million and Net Position (Unrestricted), which was understated by \$16.2 million.

There was also an error identified in the Net Position classifications in the statement of net position as of June 30, 2017, which served to understate Net Position (Restricted – expendable) by \$24.8 million, overstate Net position (Net investment in capital assets) by \$0.4 million, and overstate Net Position (Unrestricted) by \$24.4 million.

There was no impact on the statement of revenues, expenses and changes in net position, or on the statement of cash flows, due to these errors or their correction in the fiscal year 2017 financial statements. Management does not believe the errors are material to the financial statements of any period.

#### **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.

#### **Cash and Cash Equivalents**

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

Due to the District's status as a Local Agency, amounts in the District's deposit accounts are considered to be public funds, which, by State statute, are required to be collateralized, with pledged securities, by the depository bank. The value of the pledged securities, in addition to the deposit insurance provided by the Federal Deposit

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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Insurance Corporation, equals or exceeds the District's carrying value. Collateral is held by the depository bank's trust department in the name of the District.

#### **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 is included in operating expense of the District.

#### **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.

#### **Promises to Give**

The Foundation records unconditional promises to give that are expected to be collected within one year in contributions 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 revenue until the conditions are substantially met.

#### **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.

#### **Supplies**

The inventory of supplies is valued on a first-in, first-out basis.

#### **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, 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 Foundation donors to a specific time period or purpose are classified as restricted funds.

#### **Capital Assets**

Capital assets are recorded at cost. District 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

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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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.

#### **Deferred Inflows and Outflows of Resources**

In addition to assets, liabilities and net position, the statement of financial position includes separate sections for deferred outflows of resources and deferred inflows of resources. A deferred outflow represents a consumption or use of net position, applicable to a future period that will not be recognized as an outflow (expense) until that future period. Similarly, a deferred inflow represents an acquisition of net position, applicable to a future period that will not be recognized as an inflow (revenue) until that future period. The District has deferred outflows of resources related to goodwill (described further under Business Combinations and Goodwill below), and both deferred inflows and deferred outflows of resources related to postretirement medical benefits (OPEB) and pension (both of which are described further under Note 11, Employee Benefit Plans).

#### **Business Combinations and Goodwill**

The District adopted GASB 69, *Government Combinations and Disposals of Government Operations* in fiscal year 2015. In connection with this adoption, the goodwill associated with the July 2010 purchase of a controlling interest in the WOSC was assigned a life of fifteen years. *Other operating expenses* for fiscal years 2018 and 2017 each include annual expense of \$0.7 million for amortization of this goodwill.

Within the Statements of Net Position, unamortized goodwill is reflected in *Deferred outflows of resources – goodwill*.

There were no new business combinations in fiscal year 2018 or fiscal year 2017.

#### **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 claims; and medical malpractice. The District utilizes both commercial insurance and self-insurance for claims arising from such matters. The District is self-insured for workers' compensation claims, health, vision and dental claims, and is self-insured for amounts in excess of specified retention amounts for hospital professional and general liability (including directors' and officers') claims.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### **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.

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, respectively. The accrued liabilities for claims arising from these programs are estimated based upon annual actuarial reviews and are recorded at the expected, undiscounted amounts.

The District is a member of and participates in a group professional and general liability (including directors and officers coverage) group insurance program through BETA Healthcare Group (BETA). BETA is a joint powers authority whose members are district hospitals and county facilities in California. Amounts paid to BETA by each member 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 hospital. Claims in excess of specified retention amounts are the responsibility of individual program participants.

The District has claims-made coverage for excess claim amounts, up to \$40 million per year, for professional and general liability through BETA. The District converted coverage for these liabilities from occurrence-based to "claims-made" on July 1, 2004. The District records actuarially-determined liabilities related to this coverage for 1) tail liability (based on claims associated with occurrences subsequent to July 1, 2004), 2) unreported claims from occurrences prior to July 1, 2004 (subject to the deductible limit) and 3) deductible amounts for currently open claims. The accrued liabilities are recorded at the expected, undiscounted amounts.

#### **Net Position**

##### ***District***

Net position is composed of the following categories:

##### *Unrestricted*

Unrestricted net position that is neither restricted nor included in net investment in capital assets. Unrestricted net position may be designated for specific purposes by management or the Board of Directors.

##### *Restricted for Minority Interest*

Net position of a legally separate organization attributable to other participants. In July 2010, the District acquired the WOSC and concurrently sold a minority interest in the entity to area physicians. No gain on sale was recognized upon the sale of the minority interest. During 2018, the WOSC earned operating income of approximately \$3.0 million. The District distributed a portion of the minority interest's share of 2017 earnings in fiscal year 2018.

##### *Net Investment in Capital Assets*

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 position resulting from transactions with purpose restrictions as restricted net position until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

##### *Expendable*

Net position, 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.



# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### *Nonexpendable*

Net position subject to externally-imposed restrictions that they be retained in perpetuity by the District. There were no such assets as of June 30, 2018 and 2017.

#### **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 position 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.

#### **Concentration of Credit Risk**

##### ***District***

Financial instruments that potentially subject the District to concentration 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). All of the District's investments, including assets held by trustees, are collateralized and/or are held by the District, or its agent, in the District's name. Other than U.S. Treasury obligations, LAIF funds, and money market mutual 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 25 percent of the District's net patient service revenues for each of the fiscal years ended June 30, 2018 and 2017. Medicare (18.8 percent) and Blue Cross Prudent Buyer (12.5 percent) are the only payors representing more than 10 percent of the District's net patient accounts receivable as of June 30, 2018. The District maintains an allowance for doubtful accounts based on the expected collectability 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 collectability of pledges. The Foundation had 209 donor pledges, with the largest individual pledge representing approximately 23.3 percent of the total pledge receivable balance, as of June 30, 2018. The Foundation had 75 donor pledges, with the largest individual pledge representing approximately 56.6 percent of the total pledge receivable balance, as of June 30, 2017.

#### **Statements of Revenues, Expenses, and Changes in Net Position**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions,

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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which include property tax revenues, interest expense, investment income, changes in unrealized gains and losses, rental income and bond issuance costs are reported as non-operating revenues and expenses.

#### **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. Retroactive adjustments, related to prior years, including adjustments to prior year estimates, increased net patient service revenues approximately \$12.7 million in fiscal year 2018 and approximately \$6.9 million in fiscal year 2017.

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.

#### **Charity Care**

The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Because the District 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.

#### **Other Revenues**

Other revenues include revenues from cafeteria, laundry, dietary and certain DEVCO operations. Other revenues also include incentive funding from Medi-Cal and Medicare, based on demonstrated Meaningful Use of an Electronic Health Record (Meaningful Use) and funding under the State of California's Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program. Amounts recorded for Meaningful Use were \$0.0 million and \$0.6 million in fiscal years 2018 and 2017, respectively. Amounts recorded for the PRIME program were \$5.4 million and \$4.8 million in fiscal years 2018 and 2017, respectively.

#### **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.

#### **Impairment of Long-Lived Assets**

The District is required to evaluate prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. Based on management's evaluation, there were no impairment losses in fiscal years 2018 and 2017.

#### **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 non-profit corporation; exempt from federal and state income tax as a 501(c)(3) organization.

#### **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.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### **New Accounting Pronouncements**

##### ***District – Adopted***

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*, effective for fiscal years beginning after June 15, 2017, with earlier adoption encouraged. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The District adopted this standard in fiscal year ended June 30, 2018, the effects of which are included in the June 30, 2018 and June 30, 2017 balances presented in the accompanying financial statements. Adoption of this standard resulted in the recognition of an additional \$22.2 million in net OPEB liability and a corresponding reduction in unrestricted net position as of July 1, 2016. See additional related discussion in Note 12.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for financial statements for periods beginning after June 15, 2017, with earlier adoption encouraged. This Statement addressed a variety of topics including issues relate to blending component units, goodwill, fair value measurement and postemployment benefits. Adoption of this standard in fiscal year 2018 by the District did not have an impact on the financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for financial statements for periods beginning after June 15, 2017, with earlier adoption encouraged. Adoption of this standard in fiscal year 2018 by the District did not have an impact on the financial statements.

##### ***District – Pending Adoption***

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for financial statements for periods beginning after June 15, 2018, (fiscal year 2019 for the District) with earlier adoption encouraged. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Under GASB 83, an entity that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a related liability. Management is currently evaluating the effect of this standard on the financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for financial statements for periods beginning after December 15, 2018 (fiscal year 2020 for the District), with earlier adoption encouraged. The objective of this Statement is to improve guidance regarding the identification, accounting and financial reporting of fiduciary activities by state and local governments. Management is currently evaluating the effect of this standard on the financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for financial statements for periods beginning after December 15, 2019 (fiscal year 2021 for the District), with earlier adoption encouraged. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. For the District, these changes are expected to primarily impact the accounting for real property leases, and management is continuing to evaluate the effect of this standard on the financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for financial statements for periods beginning after June 15, 2018 (fiscal year 2019 for the District), with earlier adoption encouraged. The primary objective of this Statement is to expand and improve financial statement footnote disclosures related to debt, including direct borrowing and direct placements. Management is currently evaluating the effect of this standard on the financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, effective for financial statements for periods beginning after December 15, 2019 (fiscal year 2021 for the District), with earlier adoption encouraged. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and to simplify accounting for interest cost incurred

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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before the end of the construction period. Management is currently evaluating the effect of this standard on the financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, effective for financial statements for periods beginning after December 15, 2018 (fiscal year 2020 for the District), with earlier application encouraged. The objectives of this Statement are to improve the consistency and comparability of reporting an entity's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Management is currently evaluating the effect of this standard on the financial statements.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### **Foundation**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, effective (for nonpublic entities) for periods beginning after December 15, 2018 (fiscal year 2020 for the Foundation). ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. Other related ASU's have been issued subsequently to provide additional corrections and clarification on this topic. Management is currently evaluating the effect of this standard, and the related updates, on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, effective for periods beginning after December 15, 2017 (fiscal year 2019 for the Foundation). ASU 2016-14 revises the not-for-profit financial reporting model, streamlining and clarifying net asset reporting, providing flexibility regarding the definitions of reported operating subtotals, and imposing new reporting requirements related to expenses. Management is currently evaluating the effect of this standard on the financial statements.

Also in August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments*, effective for periods beginning after December 15, 2017 (fiscal year 2019 for the Foundation). ASU 2016-15 provides guidance on classification of eight specific cash flow items within the statement of cash flows. Management is currently evaluating the effect of this standard on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows, Restricted Cash*, effective for periods beginning after December 15, 2017 (fiscal year 2019 for the Foundation). ASU 2016-18 provides guidance on the classification and presentation of changes in restricted cash on the statement of cash flows. Management is currently evaluating the effect of this standard on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective for periods beginning after June 15, 2018 (fiscal year 2019 for the Foundation). The intent of ASU 2018-08 is to achieve greater consistency in the reporting of similar grants and contracts between different not-for-profit entities. Management is currently evaluating the effect of this standard on the financial statements.

**Washington Township Health Care District**  
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**2. Patient Revenues**

Patient revenues consist of the following:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Gross patient charges</b>		
Routine inpatient services	\$ 390,147	\$ 407,469
Ancillary inpatient services	1,105,208	1,135,060
Outpatient services	<u>609,927</u>	<u>645,145</u>
	2,105,282	2,187,674
Less: Charity care	<u>(4,135)</u>	<u>(3,271)</u>
Gross patient service revenues	<u>2,101,147</u>	<u>2,184,403</u>
<b>Deductions from gross patient service revenues</b>		
Contractual allowances for statutory and negotiated rates	1,553,273	1,657,367
Provision for doubtful accounts	<u>42,345</u>	<u>37,084</u>
	<u>1,595,618</u>	<u>1,694,451</u>
Net patient service revenues	<u>\$ 505,529</u>	<u>\$ 489,952</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 finalized for all fiscal years through June 30, 2014.

Services provided to Medi-Cal program beneficiaries were reimbursed at negotiated per-diem rates for inpatient services provided through June 30, 2014. Effective July 1, 2014, an All Patient Refined Diagnosis Related Group (APR-DRG) payment methodology replaced the per-diem reimbursement model. Outpatient services to Medi-Cal beneficiaries are reimbursed according to a State fee schedule.

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.

# Washington Township Health Care District

## Notes to Financial Statements

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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 estimated reserves for uncollectible accounts are recorded as an adjustment to the provision for bad debts.

At the current time there is uncertainty about reimbursements from government programs. The Centers for Medicare and Medicaid Services have proposed reductions in rates, which would result in a decrease in Medicare reimbursements. The State budget contains proposed health care budget cuts that 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 AB 1653 (Statutes of 2010) established a series of Medicaid supplemental payments funded through a "Quality Assurance Fee (QAF)" and a "Hospital Fee Program (Program)", which are imposed on certain California hospitals. The original effective date of the HFP was 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 Program was made permanent by the passage of Proposition 52 in November 2016. The current Program relates to the period from January 1, 2017 through June 30, 2019. The 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 QAF; however, the District receives supplemental payments under the Program. For fiscal years 2018 and 2017, the District recognized \$3.5 million and \$1.0 million, respectively. Program revenues have been reported as net patient service revenues.

Non-Designated Public Hospitals (NDPHs), including the District, were authorized, in 2011's AB 113, to use intergovernmental transfers (IGTs) to obtain federal supplemental funds for Medi-Cal inpatient fee-for-service. The IGTs are used to bring NDPHs, in the aggregate, up to their federal upper payment limit (UPL). The UPL is the federal maximum available under the Medicaid program, as calculated based on the actual costs of providing care. For fiscal years 2018 and 2017, the District recognized amounts under the IGT Program of \$2.5 million and \$1.5 million, respectively, which have been reported as net patient service revenues.

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 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 fiscal years 2018 and 2017, the District recorded net patient service revenues of \$2.0 million and \$0.5 million, respectively, related to these payments.

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

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
Medicare and Medicare HMO	\$ 1,069,724	\$ 1,121,727
Medi-Cal and Medi-Cal HMO	410,289	431,973
Commercial PPO, HMO and others	576,318	592,392
Private pay	<u>48,951</u>	<u>41,582</u>
Total gross patient revenues	<u>\$ 2,105,282</u>	<u>\$ 2,187,674</u>

**3. Charity Care**

The District maintains records to identify and monitor the level of direct charity care it provides. For fiscal year 2018 and 2017, net patient service revenues exclude charges foregone for charity care services and supplies of approximately \$4.1 million and \$3.3 million, respectively.

**4. Contributions Receivable**

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

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
Critical Care Pavilion	\$ 3,336	\$ 1,294
Center for Joint Replacement	-	6
Other	<u>90</u>	<u>137</u>
Contributions receivable before unamortized discount and allowance for uncollectibles	3,426	1,437
Less:		
Allowance for uncollectibles	(68)	(43)
Unamortized net present value discount	<u>(396)</u>	<u>(70)</u>
Net contributions receivable	<u>\$ 2,962</u>	<u>\$ 1,324</u>
<b>Amounts due in</b>		
Less than 1 year	\$ 90	\$ 75
1 to 3 years	<u>2,872</u>	<u>1,249</u>
Net contributions receivable	<u>\$ 2,962</u>	<u>\$ 1,324</u>

The value of net contributions receivable represents the Foundation's expected future cash flows from each pledge. For fiscal years 2018 and 2017, respectively, the Foundation used a discount rate of 5.0 and 4.5 percent. The rate used for each year is based on management's estimate of the risk-free rate, adjusted for the risk of donor default.

**5. Restricted Net Position and Net Assets**

**District**

The District's restricted net position is expendable for the construction of new facilities for emergency and critical care services.

**Foundation**



**Washington Township Health Care District**  
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The Foundation's temporarily restricted net assets are available for the following programs:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
Critical Care Pavilion	\$ 5,442	\$ 5,415
Health-related services	769	702
Emergency room and critical care	308	276
Trauma rooms	264	264
Education and professional recognition	211	252
Pathways hospice	230	235
Community Mammography	209	223
Surgical services	253	181
Special care nursery	153	157
Other activities	9	18
Total restricted net assets	<u>\$ 7,848</u>	<u>\$ 7,723</u>

**6. Related-Party Transactions**

The District held \$2,860,000 and \$3,807,000 as of June 30, 2018 and 2017, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated \$4,119,000 and \$659,000 to the District for fiscal years 2018 and 2017, respectively.

**7. Fair Value**

The fair value of certain assets has been estimated using available market information and appropriate valuation methodologies. A fair market value hierarchy for valuation inputs has been established to prioritize them into levels based on the extent to which inputs used in measuring fair value are observable in the market. The level assigned to a particular financial instrument is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are as follows:

- Level 1 - Values are based on quoted prices (unadjusted) available in active markets for identical assets or liabilities as of the measurement date. Level 1 investments include equity securities and other publicly traded securities. The District has no Level 1 assets or liabilities.
- Level 2 – Values are based on quoted prices in non-active markets, dealer quotations, or alternative pricing sources for similar assets or liabilities, for which all significant inputs are observable, either directly or indirectly. Level 2 investments included fixed- or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.
- Level 3 –Values are based on inputs that are generally unobservable for the asset or liability and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value for Level 3 investments are based upon the best information available and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements. The District has no Level 3 assets or liabilities.
- Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are also not subject to the fair value disclosure requirements.

The fair value of the District's and Foundation's investment assets, measured on a recurring basis at June 30, 2018, is reflected in the following table:

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<i>(in thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Cash and Cash Equivalents (Not Leveled)	Balance at June 30, 2018
<b>District</b>					
Short-term investments					
Money market and mutual funds	\$ -	\$ -	\$ -	\$ 38,503	\$ 38,503
Long-term investment and restricted funds					
U.S. Treasuries		56,718			56,718
U.S. Agencies		21,938			21,938
Corporate and municipal bonds		54,410			54,410
Local Agency Investment Fund (LAIF)		102,469			102,469
Money market and mutual funds				2,316	2,316
Total Investments - District	<u>\$ -</u>	<u>\$ 235,535</u>	<u>\$ -</u>	<u>\$ 40,819</u>	<u>\$ 276,354</u>
<b>Foundation</b>					
Short-term investments					
Money market funds and certificates of deposit	\$ -	\$ -	\$ -	\$ 535	\$ 535
Domestic equity funds	-	-	-	-	-
Short-term investments held by District on behalf of					
Foundation Local Agency Investment Fund (LAIF)	-	2,860	-	-	2,860
Long-term investment and restricted funds:					
Certificates of deposit	-	-	-	-	-
Total Investments - Foundation	<u>\$ -</u>	<u>\$ 2,860</u>	<u>\$ -</u>	<u>\$ 535</u>	<u>\$ 3,395</u>

The fair value of the District's and Foundation's investment assets, measured on a recurring basis at June 30, 2017, is reflected in the following table:

<i>(in thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Cash and Cash Equivalents (Not Leveled)	Balance at June 30, 2017
<b>District</b>					
Short-term investments					
Money market and mutual funds	\$ -	\$ -	\$ -	\$ 34,011	\$ 34,011
Long-term investment and restricted funds					
U.S. Treasuries	-	52,345	-	-	52,345
U.S. Agencies	-	33,398	-	-	33,398
Corporate and municipal bonds	-	50,879	-	-	50,879
Local Agency Investment Fund (LAIF)	-	128,775	-	-	128,775
Money market and mutual funds	-	-	-	1,958	1,958
Total Investments - District	<u>\$ -</u>	<u>\$ 265,397</u>	<u>\$ -</u>	<u>\$ 35,969</u>	<u>\$ 301,366</u>
<b>Foundation</b>					
Short-term investments					
Money market funds and certificates of deposit	\$ -	\$ -	\$ -	\$ 426	\$ 426
Domestic equity funds	-	1,193	-	-	1,193
Short-term investments held by District on behalf of					
Foundation Local Agency Investment Fund (LAIF)	-	3,807	-	-	3,807
Long-term investment and restricted funds:					
Certificates of deposit	-	-	-	107	107
Total Investments - Foundation	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 533</u>	<u>\$ 5,533</u>

Significant Level 2 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

Fixed income funds consist of government securities and corporate bonds. Where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for

**Washington Township Health Care District**  
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comparable instruments and transactions in establishing prices, as well as discounted cash flow models and other pricing modes. These inputs to fair value are included in industry-standard valuation techniques such as the income or market approach.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instrument therefore changes in assumptions could significantly affect these estimates. Since the fair value has been estimated as of June 30, 2018 and as of June 30, 2017, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be different.

**8. Long-Term Investment and Restricted Funds**

**District**

As of June 30, 2018 and 2017, investment and restricted funds, at fair value, have been set aside as follows:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Long-term Investment and Restricted Funds</b>		
Board-designated for capital and debt	\$ 172,782	\$ 149,368
Workers' compensation fund	8,593	11,898
Funds held by trustee under bond indenture	92,177	137,299
Restricted funds	<u>2,802</u>	<u>2,801</u>
Total funds	276,354	301,366
Short-term investments – required for current liabilities	<u>(53,768)</u>	<u>(50,045)</u>
Total long-term investment and restricted funds	<u>\$ 222,586</u>	<u>\$ 251,321</u>

**Foundation**

Investments as of June 30, 2018 and 2017, at fair value, are summarized below:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
Money market and certificates of deposit	\$ 535	\$ 533
Equity mutual fund	-	1,193
LAIF held by District on behalf of Foundation	<u>2,860</u>	<u>3,807</u>
Total Investments	<u>\$ 3,395</u>	<u>\$ 5,533</u>

**Washington Township Health Care District**  
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The District's investment policy permits the following investments:

<b>Authorized investment type</b>	<b>Maximum Average Maturity</b>	<b>Maximum Percentage</b>	<b>Maximum Investment</b>
U.S. Treasury obligations	10 years	100%	none
U.S. Government agency securities	10 years	100%	none
State of California or local agency obligations	5 years	100%	none
Corporate bonds	5 years	30%	none
Certificates of deposit	5 years	30%	none
Mortgage passthroughs	5 years	20%	none
Commercial paper	270 days	40%	10%
Bankers acceptances	180 days	40%	30%
Repurchase agreements	92 days	20%	none
Mutual funds	N/A	20%	none
		As permitted	
LAIF (State Pool Demand Deposits)	N/A	by law	\$ 65,000,000 *

\* no maximum for investments of bond proceeds

As of June 30, 2018 the District had the following investments with maturities as follows:

<i>(in thousands)</i>	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
<b>Investment type</b>					
U.S. Treasuries	\$ 56,718	\$ 11,127	\$ 41,689	\$ 3,902	\$ -
U.S. Government agencies	21,938	3,385	10,689	2,455	5,409
Corporate bonds	54,410	1,641	51,929	274	566
LAIF (State Pool Demand Deposits)	102,469	102,469	-	-	-
Money market and mutual funds	40,819	40,819	-	-	-
Total investments	<u>\$ 276,354</u>	<u>\$ 159,441</u>	<u>\$ 104,307</u>	<u>\$ 6,631</u>	<u>\$ 5,975</u>

As of June 30, 2017 the District had the following investments with maturities as follows:

<i>(in thousands)</i>	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
<b>Investment type</b>					
U.S. Treasuries	\$ 52,345	\$ 11,569	\$ 36,011	\$ 4,765	\$ -
U.S. Government agencies	33,398	3,691	22,209	3,021	4,477
Corporate bonds	50,879	3,485	46,031	1,147	216
LAIF (State Pool Demand Deposits)	128,775	128,775	-	-	-
Money market and mutual funds	35,969	35,969	-	-	-
Total investments	<u>\$ 301,366</u>	<u>\$ 183,489</u>	<u>\$ 104,251</u>	<u>\$ 8,933</u>	<u>\$ 4,693</u>

Amounts invested in the State of California Local Agency Investment Fund include funds designated for operations and for Board-designated purposes.

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**Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy, for assets that are Board-designated for capital, limits investments made by each investment manager to have an average maturity of not more than five years.

**Credit Risk**

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

The District's investments at June 30, 2018 are rated as follows:

*(in thousands)*

	<b>Fair Value</b>	<b>Ratings</b>
<b>Investment type</b>		
U.S. Treasuries	\$ 56,718	Not rated
U.S. Government agencies	21,938	Not rated
Corporate bonds	54,410	See below
Local agency investment fund	102,469	Not rated
Money market and mutual funds	40,819	Not rated
Total Investments	\$ 276,354	

*(in thousands)*

	<b>Amount</b>
<b>Corporate bonds rating</b>	
AAA	\$ 5,745
AA+	3,079
AA	4,399
AA-	8,634
A+	6,426
A	15,656
A-	10,471
Total corporate bonds	\$ 54,410

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**9. Capital Assets**

The District's capital assets activity for fiscal year 2018 consisted of the following:

<i>(in thousands)</i>	<b>Beginning Balance June 30, 2017</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance June 30, 2018</b>
<b>Capital assets, not being depreciated</b>				
Land	\$ 27,616	\$ -	\$ -	\$ 27,616
Construction in progress	308,214	91,716	(7,687)	392,243
Total capital assets not being depreciated	<u>335,830</u>	<u>91,716</u>	<u>(7,687)</u>	<u>419,859</u>
<b>Capital assets being depreciated</b>				
Land improvements	12,911	13	-	12,924
Buildings	386,015	5,034	-	391,049
Fixed and moveable equipment	363,506	7,135	(27,551)	343,090
Total capital assets being depreciated	<u>762,432</u>	<u>12,182</u>	<u>(27,551)</u>	<u>747,063</u>
<b>Less: Accumulated depreciation</b>				
Land improvements	(8,096)	(3,948)	-	(12,044)
Buildings	(167,062)	(12,590)	-	(179,652)
Fixed and movable equipment	(242,710)	(21,535)	27,516	(236,729)
Total accumulated depreciation	<u>(417,868)</u>	<u>(38,073)</u>	<u>27,516</u>	<u>(428,425)</u>
Total capital assets being depreciated, net	<u>344,564</u>	<u>(25,891)</u>	<u>(35)</u>	<u>318,638</u>
Total capital assets, net	<u>\$ 680,394</u>	<u>\$ 65,825</u>	<u>\$ (7,722)</u>	<u>\$ 738,497</u>

At June 30, 2018, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$36 million.

The District's capital assets activity for fiscal year 2017 consisted of the following:

<i>(in thousands)</i>	<b>Beginning Balance June 30, 2016</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance June 30, 2017</b>
<b>Capital assets, not being depreciated</b>				
Land	\$ 10,482	\$ 17,134	\$ -	\$ 27,616
Construction in progress	202,421	137,095	(31,302)	308,214
Total capital assets not being depreciated	<u>212,903</u>	<u>154,229</u>	<u>(31,302)</u>	<u>335,830</u>
<b>Capital assets being depreciated</b>				
Land improvements	11,395	1,516	-	12,911
Buildings	325,760	60,256	(1)	386,015
Fixed and moveable equipment	349,786	14,690	(970)	363,506
Total capital assets being depreciated	<u>686,941</u>	<u>76,462</u>	<u>(971)</u>	<u>762,432</u>
<b>Less: Accumulated depreciation</b>				
Land improvements	(7,717)	(379)	-	(8,096)
Buildings	(153,489)	(13,574)	1	(167,062)
Fixed and movable equipment	(220,877)	(22,767)	934	(242,710)
Total accumulated depreciation	<u>(382,083)</u>	<u>(36,720)</u>	<u>935</u>	<u>(417,868)</u>
Total capital assets being depreciated, net	<u>304,858</u>	<u>39,742</u>	<u>(36)</u>	<u>344,564</u>
Total capital assets, net	<u>\$ 517,761</u>	<u>\$ 193,971</u>	<u>\$ (31,338)</u>	<u>\$ 680,394</u>

At June 30, 2017, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$70 million.

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The increase in the District's accumulated depreciation includes both operating and non-operating depreciation as detailed below:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Change in accumulated depreciation</b>		
Operating depreciation expense	\$ 34,032	\$ 34,807
Non-operating depreciation expense	4,041	1,913
Disposal of fixed assets	<u>(27,516)</u>	<u>(935)</u>
Total increase in accumulated depreciation	<u>\$ 10,557</u>	<u>\$ 35,785</u>

**10. Credit Facilities**

During the fiscal years 2018 and 2017, WOSC had a short-term \$1.0 million revolving line of credit available. The line of credit was renewed, through September 2019, upon expiration in September 2017. There have been no draws under the line of credit since its inception.

In fiscal year 2015, the District entered into an Irrevocable Standby Letter of Credit (Standby LC) in the amount of \$2,100,000 in connection with the construction of a new parking garage (completed in August 2016) and emergency and the Hyman Pavilion. No draws have been made under the Standby LC which expires March 3, 2019.

**11. Long-Term Debt**

The District issued revenue bonds in 2007 to provide funds for the construction of a new building that houses 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 US Bank N.A. (Trustee), as defined in the Series indentures. In June 2017, the District issued revenue (current) refunding bonds (see below discussion of 2017B Revenue Refunding Bonds), to take advantage of favorable market interest rates and to refinance the remaining outstanding 2007 revenue bond amounts. In connection with this refinancing, sufficient funds were placed in an irrevocable escrow account to be used to pay all amounts due on the redemption date of July 15, 2017. This transaction meets the criteria for classification as an "in-substance" defeasance as of June 30, 2017, and accordingly, neither the escrowed deposit amounts, nor the liabilities which they are intended to satisfy, are reported as liabilities of the District as of June 30, 2017. The cash flow savings from the refinancing totaled \$13.0 million and the related economic gain was approximately \$9.3 million.

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 houses 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 US Bank N.A. (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 were also 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 US Bank N.A. (Trustee), as defined in the Series indentures.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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In November 2013, the District issued two additional series of general obligation bonds (2013 Series A and 2013 Series B), as approved by voters in elections in 2004 and 2012. The combined amount of the two issuances was \$145.5 million. The 2013 bonds were issued to provide funds for the construction of a new parking structure and the Hyman Pavilion which will include facilities for emergency care, intensive care and cardiac care services. The repayment of these general obligation bonds will be funded through property tax assessments to residents of the District.

In October 2015, the District issued revenue refunding bonds (2015 Series A) to refinance the outstanding amounts due on revenue bonds originally issued in 1999. The refunded bonds were originally issued for the purpose of providing funds to pay costs associated with the acquisition, construction and renovation the Hospital's 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 US Bank N.A. (Trustee), as defined in the Series indentures.

Also in October 2015, the District issued general obligation bonds (2015 Series B) for \$145.5 million, the remainder of the amount approved by voters in the 2012 election. The 2015 bonds will provide additional funds for the construction of the Hyman Pavilion, as described above. The repayment of these general obligation bonds will be funded through property tax assessments to residents of the District.

In June 2016, the District issued general obligation refunding bonds (2016 Series) to refinance the outstanding amounts due on the 2006 general obligation bonds (see also discussion above). The refunded bonds were originally issued to provide funds to pay costs related to the construction of a new Central Utility Plant and other major construction projects. The repayment of the 2016 Series general obligation bonds will be funded through property tax assessments to residents of the District.

In April 2017, the District issued new money revenue bonds (2017 Series A) to provide funds for the continued construction and equipping of the Hyman Pavilion and other capital expenditures. 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 US Bank N.A. (Trustee), as defined in the Series indentures.

In June 2017, the District issued revenue refunding bonds (2017 Series B) to refinance the outstanding amounts due on the 2007 revenue bonds (see also discussion above). The refunded bonds were originally issued to provide funds for the construction of a new building for 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 US Bank N.A. (Trustee), as defined in the Series indentures.



**Washington Township Health Care District**  
**Notes to Financial Statements**  
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The District is also required to meet certain covenants, the most restrictive of which is related to debt service coverage. The District has agreed that the Hospital will 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, 2018 and 2017, maintaining debt service coverage ratios of 4.3 to 1.0 and 3.8 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

In fiscal year 2013, the Hospital implemented a time and attendance system for its employees. The purchase of this system was financed under a 5-year installment agreement. Amounts related to this obligation are included in current maturities of long-term debt and long-term debt, as appropriate, at June 30, 2017. As of June 30, 2018, all amounts related to this obligation have been satisfied.

In fiscal years 2015 and 2017, WOSC entered into multi-year lease agreements for surgical equipment. Amounts related to these obligations are included in current maturities of long-term debt and long-term debt, as appropriate.

In December 2016, WOSC entered into an unsecured promissory note to finance the construction of a surgery center in Napa, California. The original amount of the promissory note was \$986,440 at 4.5 percent with a maturity date of January 3, 2022.

**Washington Township Health Care District**  
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A summary of the District's revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2018 is as follows:

<i>(in thousands)</i>	Beginning Balance, June 30, 2017	Additions	Amortization /Other	Repayments	Ending Balance, June 30, 2018	Due Within One Year
<b>Bonds payable</b>						
2017B Revenue Refunding Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	\$ 66,690	\$ -	\$ -	\$ -	\$ 66,690	\$ 1,090
Plus: Issuance premiums	3,889	-	(465)	-	3,424	-
Total 2017B Revenue Refunding Bonds Payable	<u>70,579</u>	<u>-</u>	<u>(465)</u>	<u>-</u>	<u>70,114</u>	<u>1,090</u>
2017A Revenue Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	37,655	-	-	-	37,655	635
Plus: Issuance premiums	1,424	-	(173)	-	1,251	-
Total 2017A Revenue Bonds Payable	<u>39,079</u>	<u>-</u>	<u>(173)</u>	<u>-</u>	<u>38,906</u>	<u>635</u>
2016 General Obligation Refunding Bonds, principal and interest (at 2.00% to 5.00%) payable semiannually	30,725	-	-	(1,085)	29,640	1,105
Plus: Issuance premiums	3,441	-	(487)	-	2,954	-
Total 2016 Gen'l Obligation Refunding Bonds Payable	<u>34,166</u>	<u>-</u>	<u>(487)</u>	<u>(1,085)</u>	<u>32,594</u>	<u>1,105</u>
2015A Revenue Refunding Bonds, principal and interest (at 3.25% to 5.00%) payable semiannually	28,780	-	-	(1,660)	27,120	1,740
Plus: Issuance premiums	1,460	-	(329)	-	1,131	-
Total 2015A Revenue Refunding Bonds Payable	<u>30,240</u>	<u>-</u>	<u>(329)</u>	<u>(1,660)</u>	<u>28,251</u>	<u>1,740</u>
2015B General Obligation Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	145,500	-	-	-	145,500	-
Plus: Issuance premiums	1,554	-	(50)	-	1,504	-
Total 2015B General Obligation Bonds Payable	<u>147,054</u>	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>147,004</u>	<u>-</u>
2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually	105,000	-	-	-	105,000	-
Plus: Issuance premiums	2,530	-	(192)	-	2,338	-
Total 2013B General Obligation Bonds Payable	<u>107,530</u>	<u>-</u>	<u>(192)</u>	<u>-</u>	<u>107,338</u>	<u>-</u>
2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually	40,500	-	-	-	40,500	-
Plus: Issuance premiums	708	-	(44)	-	664	-
Total 2013A General Obligation Bonds Payable	<u>41,208</u>	<u>-</u>	<u>(44)</u>	<u>-</u>	<u>41,164</u>	<u>-</u>
2010 Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually	54,645	-	-	(1,395)	53,250	1,465
Less: Issuance discounts	(877)	-	37	-	(840)	-
Total 2010 Revenue Bonds Payable	<u>53,768</u>	<u>-</u>	<u>37</u>	<u>(1,395)</u>	<u>52,410</u>	<u>1,465</u>
2009 Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually	49,510	-	-	(1,075)	48,435	1,135
Less: Issuance discounts	(632)	-	50	-	(582)	-
Total 2009 Revenue Bonds Payable	<u>48,878</u>	<u>-</u>	<u>50</u>	<u>(1,075)</u>	<u>47,853</u>	<u>1,135</u>
2009 General Obligation Bonds, principal and interest (at 4.50% to 5.75%) payable semiannually	11,800	-	-	(15)	11,785	30
Less: Issuance discounts	(12)	-	1	-	(11)	-
Total 2009 General Obligation Bonds Payable	<u>11,788</u>	<u>-</u>	<u>1</u>	<u>(15)</u>	<u>11,774</u>	<u>30</u>
<b>Loans payable</b>						
2013 ADP Financing, principal and interest (at 5.32%) payable monthly	76	-	-	(76)	-	-
Total 2013 ADP Loan Payable	<u>76</u>	<u>-</u>	<u>-</u>	<u>(76)</u>	<u>-</u>	<u>-</u>
WOSC 2017 Loan, principal and interest (at 4.50%) payable monthly	908	-	-	(183)	725	192
Total WOSC 2017 Loan Payable	<u>908</u>	<u>-</u>	<u>-</u>	<u>(183)</u>	<u>725</u>	<u>192</u>
<b>Capital lease obligations</b>						
WOSC Capital Leases (2015 - 2017), principal and interest (at 3.49% to 5.00%) payable monthly	421	126	-	(158)	389	99
Total WOSC capital lease obligations	<u>421</u>	<u>126</u>	<u>-</u>	<u>(158)</u>	<u>389</u>	<u>99</u>
Total long-term debt payable	<u>\$ 585,695</u>	<u>\$ 126</u>	<u>\$ (1,652)</u>	<u>\$ (5,647)</u>	<u>\$ 578,522</u>	<u>\$ 7,491</u>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
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A summary of the District's revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2017 is as follows:

<i>(in thousands)</i>	Beginning Balance, June 30, 2016	Additions	Amortization /Other	Repayments	Ending Balance, June 30, 2017	Due Within One Year
<b>Bonds payable</b>						
2017B Revenue Refunding Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	\$ -	\$ 66,690	\$ -	\$ -	\$ 66,690	\$ -
Plus: Issuance premiums	-	4,650	(761)	-	3,889	-
Total 2017B Revenue Refunding Bonds Payable	-	71,340	(761)	-	70,579	-
2017A Revenue Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	-	37,655	-	-	37,655	-
Plus: Issuance premiums	-	1,459	(35)	-	1,424	-
Total 2017A Revenue Bonds Payable	-	39,114	(35)	-	39,079	-
2016 General Obligation Refunding Bonds, principal and interest (at 2.00% to 5.00%) payable semiannually	30,725	-	-	-	30,725	1,085
Plus: Issuance premiums	3,956	-	(515)	-	3,441	-
Total 2016 Gen'l Obligation Refunding Bonds Payable	34,681	-	(515)	-	34,166	1,085
2015A Revenue Refunding Bonds, principal and interest (at 3.25% to 5.00%) payable semiannually	30,290	-	-	(1,510)	28,780	1,660
Plus: Issuance premiums	1,847	-	(387)	-	1,460	-
Total 2015A Revenue Refunding Bonds Payable	32,137	-	(387)	(1,510)	30,240	1,660
2015B General Obligation Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	145,500	-	-	-	145,500	-
Plus: Issuance premiums	1,604	-	(50)	-	1,554	-
Total 2015B General Obligation Bonds Payable	147,104	-	(50)	-	147,054	-
2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually	105,000	-	-	-	105,000	-
Plus: Issuance premiums	2,723	-	(193)	-	2,530	-
Total 2013B General Obligation Bonds Payable	107,723	-	(193)	-	107,530	-
2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually	40,500	-	-	-	40,500	-
Plus: Issuance premiums	752	-	(44)	-	708	-
Total 2013A General Obligation Bonds Payable	41,252	-	(44)	-	41,208	-
2010 Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually	55,975	-	-	(1,330)	54,645	1,395
Less: Issuance discounts	(898)	-	21	-	(877)	-
Total 2010 Revenue Bonds Payable	55,077	-	21	(1,330)	53,768	1,395
2009 Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually	50,535	-	-	(1,025)	49,510	1,075
Less: Issuance discounts	(684)	-	52	-	(632)	-
Total 2009 Revenue Bonds Payable	49,851	-	52	(1,025)	48,878	1,075
2009 General Obligation Bonds, principal and interest (at 4.50% to 5.75%) payable semiannually	11,815	-	-	(15)	11,800	15
Less: Issuance discounts	(14)	-	2	-	(12)	-
Total 2009 General Obligation Bonds Payable	11,801	-	2	(15)	11,788	15
2007 Revenue Bonds, Called as of July 15, 2017; refinanced by 2017B Revenue Refunding Bonds, above	72,665	-	-	(72,665)	-	-
Less: Issuance discounts	(851)	-	851	-	-	-
Total 2007 Revenue Bonds Payable	71,814	-	851	(72,665)	-	-
<b>Loans payable</b>						
2013 ADP Financing, principal and interest (at 5.32%) payable monthly	181	-	-	(105)	76	76
Total 2013 ADP Loan Payable	181	-	-	(105)	76	76
WOSC 2017 Loan, principal and interest (at 4.50%) payable monthly	-	986	-	(78)	908	183
Total WOSC 2017 Loan Payable	-	986	-	(78)	908	183
<b>Capital lease obligations</b>						
WOSC Capital Leases (2015 - 2017), principal and interest (at 3.49% to 5.00%) payable monthly	156	385	-	(120)	421	139
Total WOSC capital lease obligations	156	385	-	(120)	421	139
Total long-term debt payable	\$ 551,777	\$ 111,825	\$ (1,059)	\$ (76,848)	\$ 585,695	\$ 5,628

**Washington Township Health Care District**  
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A summary of the District's revenue bonds and general obligation bonds issuance information is as follows:

<i>(in thousands)</i>	Original Issue Amount	Maturity Date	Effective Interest Rate	
			2018	2017
<b>Bond issue</b>				
2017B Revenue Refunding Bonds	\$ 66,690	7/1/2037	3.56%	N/A
2017A Revenue Bonds	37,655	7/1/2047	3.80%	3.79%
2016 Gen'l Obligation Refunding Bonds	30,725	8/1/2036	2.03%	1.97%
2015A Revenue Bonds	30,290	7/1/2029	3.05%	2.93%
2015B General Obligation Bonds	145,500	8/1/2045	3.93%	3.93%
2013B General Obligation Bonds	105,000	8/1/2043	4.87%	4.86%
2013A General Obligation Bonds	40,500	8/1/2043	4.87%	4.86%
2010 Revenue Bonds	60,725	7/1/2038	5.46%	5.43%
2009 Revenue Bonds	55,000	7/1/2039	6.26%	6.25%
2009 General Obligation Bonds	25,000	8/1/2039	5.70%	5.70%

The long-term debt payment requirements as of June 30, 2018, excluding unamortized discounts and premiums on bonds payable, are as follows:

<i>(in thousands)</i>	Total Long-Term Debt	
	Principal	Interest
<b>June 30,</b>		
2019	\$ 7,491	\$ 26,609
2020	8,854	26,204
2021	9,738	25,762
2022	9,996	25,284
2023	10,220	24,796
2024 - 2028	52,450	116,341
2029 - 2033	81,140	101,568
2034 - 2038	132,765	76,752
2039 - 2043	137,265	42,256
2044 - 2047	116,770	7,815
Total long-term debt, excl. unamortized discounts and premiums	<u>\$ 566,689</u>	<u>\$ 473,387</u>

Components of interest expense include the following:

<i>(in thousands)</i>	2018	2017
Total interest cost	\$ 25,292	\$ 25,379
Capitalized interest expense	(18,308)	(16,691)
Net interest expense	<u>6,984</u>	<u>8,688</u>
Capitalized investment income	\$ 1,318	\$ 1,036

**Washington Township Health Care District**  
**Notes to Financial Statements**  
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**12. Employee Benefit Plans**

**Defined Benefit Retirement Plan**

The District maintains a defined benefit retirement plan, the Washington Township Health Care District Retirement Plan (the 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 funded solely 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 Plan also provides disability and death benefits. The Plan does not issue a stand-alone financial report.

Based on guidance under GASB 68, and the District's intention to fully fund the Plan by 2021, the benefit discount rate is equal to the expected long-term return on assets, which assumes that Plan assets will be invested in a diversified portfolio of stocks and bonds.

The District has flexibility in determining the amount to contribute to the Plan each year. In determining the amount of the annual contribution, the District considers the calculated actuarially determined contribution. The District has adopted a funding policy that is intended to result in the funding status of the Plan reaching 100 percent, as calculated under the provisions of GASB 68.

Participant data for the Plan, as of the measurement date for the indicated fiscal years, is shown in the table below:

	<b>2018</b>	<b>2017</b>
Active	1,431	1,343
Vested terminated	720	706
Retirees and beneficiaries	663	618
Total participants	<u>2,814</u>	<u>2,667</u>

Components of pension cost and deferred outflows and inflows of resources for years ended June 30, were as follows:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Pension cost</b>		
Service cost	\$ 6,500	\$ 6,494
Employee contributions	(980)	(732)
Interest	24,436	24,263
Expected return on plan assets	(20,727)	(19,795)
Administrative expenses	252	216
Recognition of deferred amounts	6,382	5,983
Total pension cost	<u>\$ 15,863</u>	<u>\$ 16,429</u>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

Continued (in thousands)	2018	2017
<b>Deferred outflows of resources - pension</b>		
Remaining balance at beginning of year		
Established July 1, 2012		
Change in assumptions	\$ -	\$ 160
Established July 1, 2013		
Difference between expected and actual experience	670	1,601
Change in assumptions	55	132
Established July 1, 2014		
Difference between expected and actual experience	191	320
Difference between expected and actual earnings on plan investments	2,170	3,255
Change in assumptions	4,808	8,046
Established July 1, 2015		
Difference between expected and actual earnings on plan investments	9,461	13,547
Established July 1, 2016		
Difference between expected and actual earnings on plan investments	9,582	11,978
Difference between expected and actual experience	6,295	8,244
Established July 1, 2017		
Difference between expected and actual experience	15,019	-
Deferred outflows of resources - pension at the beginning of the year	<u>48,251</u>	<u>47,283</u>
Amount recognized in current year pension cost		
Established July 1, 2012		
Change in assumptions	-	160
Established July 1, 2013		
Difference between expected and actual experience	670	931
Change in assumptions	55	77
Established July 1, 2014		
Difference between expected and actual experience	129	129
Difference between expected and actual earnings on plan investments	1,085	1,085
Change in assumptions	3,238	3,238
Established July 1, 2015		
Difference between expected and actual earnings on plan investments	3,154	4,086
Established July 1, 2016		
Difference between expected and actual earnings on plan investments	2,395	2,396
Difference between expected and actual experience	1,949	1,949
Established July 1, 2017		
Difference between expected and actual experience	3,602	-
Deferred outflows of resources - pension amortized during the year	<u>16,277</u>	<u>14,051</u>
Deferred outflows of resources - pension at end of year	<u>\$ 31,974</u>	<u>\$ 33,232</u>
<b>Deferred inflows of resources - pension</b>		
Remaining balance at beginning of year		
Established July 1, 2012		
Difference between expected and actual experience	\$ -	\$ (387)
Difference between expected and actual earnings on plan investments	-	(1,135)
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	(2,448)	(4,896)
Established July 1, 2015		
Difference between expected and actual experience	(6,098)	(10,196)
Established July 1, 2017		
Difference between expected and actual earnings on plan investments	(21,565)	-
Deferred inflows of resources - pension at the beginning of the year	<u>(30,111)</u>	<u>(16,614)</u>
Amount recognized in current year pension cost		
Established July 1, 2012		
Difference between expected and actual experience	-	(387)
Difference between expected and actual earnings on plan investments	-	(1,135)
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	(2,448)	(2,448)
Established July 1, 2015		
Difference between expected and actual experience	(3,134)	(4,098)
Established July 1, 2017		
Difference between expected and actual experience	(4,313)	-
Deferred inflows of resources - pension amortized during the year	<u>(9,895)</u>	<u>(8,068)</u>
Deferred inflows of resources - pension at end of year	<u>\$ (20,216)</u>	<u>\$ (8,546)</u>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
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<b>Amount of deferred outflows to be recognized in pension expense for future years</b>	
2019	\$ 13,816
2020	11,100
2021	6,446
2022	612
Thereafter	-
	<u>\$ 31,974</u>
Total deferred outflows of resources - pension	<u>\$ 31,974</u>

<b>Amount of deferred inflows to be recognized in pension expense for future years</b>	
2019	\$ (7,277)
2020	(4,313)
2021	(4,313)
2022	(4,313)
Thereafter	-
	<u>\$ (20,216)</u>
Total deferred inflows of resources - pension	<u>\$ (20,216)</u>

The following table summarizes changes in net pension liability from July 1, 2016 to June 30, 2018:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Total pension liability</b>		
Service cost	\$ 6,500	\$ 6,494
Interest	24,436	24,263
Difference between expected and actual experience	15,019	8,244
Benefit payments	<u>(15,043)</u>	<u>(30,410)</u>
Net change in total pension liability	30,912	8,591
Total pension liability (beginning of year)	<u>334,206</u>	<u>325,615</u>
Total pension liability (end of year)	<u>365,118</u>	<u>334,206</u>
<b>Plan fiduciary net position</b>		
Employer contributions	22,300	22,000
Employee contributions	980	732
Net investment income	42,293	7,817
Benefit payments	(15,043)	(30,410)
Administrative expense	(252)	(216)
Other	<u>(1)</u>	<u>(126)</u>
Net change in fiduciary net position	50,277	(203)
Fiduciary net position (beginning of year)	<u>272,452</u>	<u>272,655</u>
Fiduciary net position (end of year)	<u>322,729</u>	<u>272,452</u>
Net pension liability (end of year)	<u>\$ 42,389</u>	<u>\$ 61,754</u>
Fiduciary net position as percent of liability	<u>88.4%</u>	<u>81.5%</u>
Covered employee payroll	<u>168,165</u>	<u>146,438</u>
Net pension liability as percent of covered payroll	<u>25.2%</u>	<u>42.2%</u>

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2018 and June 30, 2017 (unless otherwise indicated, the same assumption was used for the valuations for both years):

Valuation date	January 1
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Economic assumptions (including 3% inflation)	
Projected salary increases	3.00%
Discount rate	7.50%
Demographic assumptions	
Mortality table for healthy participants	RP-2014 base table with two-dimensional projection scale BB projected generationally
Mortality table for disabled participants	RP-2014 Disabled retiree table
Sensitivity of net pension liability at January 1, 2018	
to changes in the discount rate, with no other changes -	
1 percent decrease (6.5%)	\$87,741,000
Current discount rate (7.5%)	42,389,000
1 percent increase (8.5%)	4,541,000
Sensitivity of net pension liability at January 1, 2017	
to changes in the discount rate, with no other changes -	
1 percent decrease (6.5%)	\$102,859,000
Current discount rate (7.5%)	61,754,000
1 percent increase (8.5%)	27,471,000
Sensitivity of net pension liability at January 1, 2016	
to changes in the discount rate, with no other changes -	
1 percent decrease (6.5%)	\$92,351,000
Current discount rate (7.5%)	52,960,000
1 percent increase (8.5%)	19,977,000

The fair value of the District's pension investments measured as of January 1, 2018, and used for the purpose of the June 30, 2018 valuation, is reflected in the following table:

<i>(in thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Cash And Cash Equivalents (Not Leveled)	Balance At Valuation Date
Money market and mutual funds	\$ 294,399	\$ 28,330	\$ -	\$ -	\$ -	\$ 322,729
Fixed income securities	-	-	-	-	-	-
Domestic equity fund	-	-	-	-	-	-
International equity fund	-	-	-	-	-	-
Private equity fund	-	-	-	-	-	-
Total pension assets	<u>\$ 294,399</u>	<u>\$ 28,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,729</u>



**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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The fair value of the District's pension investments measured as of January 1, 2017, and used for the purpose of the June 30, 2017 valuation, is reflected in the following table:

<i>(in thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Cash And Cash Equivalents (Not Leveled)	Balance At Valuation Date
Money market and mutual funds	\$ 238,857	\$ -	\$ -	\$ -	\$ 327	\$ 239,184
Fixed income securities	-	33,268	-	-	-	33,268
Domestic equity fund	-	-	-	-	-	-
International equity fund	-	-	-	-	-	-
Private equity fund	-	-	-	-	-	-
Total pension assets	<u>\$ 238,857</u>	<u>\$ 33,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327</u>	<u>\$ 272,452</u>

For a description of the levels used for valuation, information about the valuation techniques and inputs used to measure the fair value of plan assets, see discussion regarding fair value measurements in Note 7.

The District also has a Deferred Compensation Plan available to employees. Generally, any employee is eligible to voluntarily enter into an agreement with the District to defer current wages at amounts limited by federal law. Effective January 1, 2010, under the terms of the Washington Township Health Care District Employer Matching Contributions Plan (the Matching Plan), the District matches participant contributions, for employees with a minimum of 1,000 hours in a benefitted status, to a maximum of 1.5 percent of gross earnings. Under the deferred compensation plan and the Matching Plan 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.

Matching contributions made by the District in fiscal years 2018 and 2017 were as follows:

<i>(in thousands)</i>	Amount	Employee Deductions Being Matched
<b>Contribution Year</b>		
2018		
2017	\$ 1,962	Calendar year 2017
	\$ 1,878	Calendar year 2016

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### **Defined Benefit Postemployment Medical Plan**

Other postemployment benefits are provided by the District through a single-employer defined benefit postemployment medical plan, the Washington Township Health Care District Postretirement Medical Plan (the OPEB Plan). The OPEB Plan provides benefits for salaried and non-salaried employees, as approved and/or amended by the Board of Directors of the District, and is administered by the District. Eligible individuals are those retiring directly from the District, at a minimum age of 55, with a minimum of fifteen years of service, who have been continuously in a benefited status for the five years prior to their retirement date.

Eligible retirees who are less than age 65, with fifteen to twenty years of service, are eligible to receive a monthly reimbursement for medical expenses up to a stipulated amount under the Retiree Medical Reimbursement Plan. This reimbursement amount is fixed and is not subject to future increases under the current terms of the OPEB Plan. Eligible retirees with twenty years of service or more may elect the Retiree Medical Reimbursement Plan or coverage under the Blue Shield Retiree Medical Plan, with the District providing premium subsidies of from 35 percent (with 15 years of service) to 100 percent (with 30 years of service). These benefits are only available until the retirees reach age 65.

Once eligible retirees reach age 65, the OPEB Plan allows for reimbursement to the retiree of the standard Medicare Part B insurance premium amounts, with automatic reimbursement increases when Medicare increases the standard premium amounts. Employees retiring at or after age 55 with 25 years of benefited service are also eligible for a prescription drug benefit which provides reimbursement up to a stipulated amount for 10 years beginning at the later of age 65 or retirement. The stipulated reimbursement amount is fixed and is not subject to future increases under the current terms of the OPEB Plan.

A separate financial report is not prepared for the OPEB Plan.

During fiscal year 2018, the District adopted Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (OPEB)* (GASB 75). Prior to the adoption of GASB 75, the District reported an OPEB liability only for the cumulative amount of unfunded actuarially required contributions, consistent with prior accounting standards. Under GASB 75, the entire unfunded OPEB liability is required to be recognized and reported as an obligation in the financial statements of the District. Previously, this information was disclosed as supplemental information only.

In June 2018, the District established a trust that is consistent with the requirements of GASB 75. Because the trust did not yet exist at the valuation date of January 1, 2018, the total OPEB liability was discounted based on the Bond Buyer 20 Index (which includes 20-year tax-exempt AA rated (or higher) Municipal Bonds, as required by GASB 75), and the employer contributions reported for fiscal 2017 and 2018 reflect only those amounts required to fund benefit payments in these years.

The District made an initial contribution to the trust of \$4.5 million in June 2018. The District has flexibility in determining the amount to contribute to the OPEB Plan each year. In determining the amount of the annual contribution, the District intends to contribute, at a minimum, the actuarially determined contribution for each year. The District has adopted a funding policy that is intended to result in the funding status of the Plan reaching 100 percent, as calculated under the provisions of GASB 75.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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As of the January 1, 2018 measurement date, the numbers of current and former employees who were eligible, or potentially eligible, for the OPEB Plan were as follows:

	2018	2017 <sup>1</sup>
Active	1,431	
Retirees	496	
Total participants	<u>1,927</u>	

<sup>1</sup> The results as of the measurement date of January 1, 2017 were based on the census counts as of January 1, 2018 projected back one year using standard actuarial techniques. There were no significant changes in census between January 1, 2017 and January 1, 2018.

Components of postemployment medical benefits cost and deferred outflows and inflows of resources for years ended June 30, were as follows:

*(in thousands)*

	2018	2017
<b>Postemployment medical benefits cost</b>		
Service cost	\$ 2,948	\$ 3,007
Interest	2,457	2,260
Recognition of deferred amounts	241	(329)
Total postemployment medical benefits cost	<u>\$ 5,646</u>	<u>\$ 4,938</u>

*(in thousands)*

	2018	2017
<b>Deferred outflows of resources - postemployment medical benefits (OPEB)</b>		
Remaining balance at beginning of year		
Established July 1, 2017		
Change in assumptions	\$ 3,541	\$ -
Deferred outflows of resources - postemployment medical benefits (OPEB) at the beginning of the year	<u>3,541</u>	<u>-</u>
Amount recognized in current year employee medical benefits cost		
Established July 1, 2017		
Change in assumptions	570	-
Deferred outflows of resources - postemployment medical benefits (OPEB) amortized during the year	<u>570</u>	<u>-</u>
Deferred outflows of resources - postemployment medical benefits (OPEB) subtotal	<u>2,971</u>	<u>-</u>
<b>Amounts of deferred outflows to be recognized in postemployment medical benefits assets</b>		
Employer contributions made after measurement date	<u>4,500</u>	<u>-</u>
Deferred outflows of resources - postemployment medical benefits (OPEB) at end of year	<u>\$ 7,471</u>	<u>\$ -</u>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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Continued (in thousands)	2018	2017
<b>Deferred inflows of resources - postemployment medical benefits (OPEB)</b>		
Remaining balance at beginning of year		
Established July 1, 2016		
Change in assumptions	<u>\$ (1,716)</u>	<u>\$ (2,045)</u>
Deferred inflows of resources - postemployment medical benefits (OPEB) at the beginning of the year	<u>(1,716)</u>	<u>(2,045)</u>
Amount recognized in current year employee medical benefits cost		
Established July 1, 2016		
Change in assumptions	<u>(329)</u>	<u>(329)</u>
Deferred inflows of resources - postemployment medical benefits (OPEB) amortized during the year	<u>(329)</u>	<u>(329)</u>
Deferred inflows of resources - postemployment medical benefits (OPEB) at end of year	<u>\$ (1,387)</u>	<u>\$ (1,716)</u>

The deferred outflows of resources to be recognized in postemployment medical benefits assets related to a contribution subsequent to the January 1, 2018 measurement date and will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2019.

Other amounts reported as deferred outflows and inflows of resources – postemployment medical benefits (OBEB) related to be recognized in OPEB expense as indicated in the following tables:

**Amount of deferred outflows - postemployment medical benefits (OPEB) to be recognized in employee medical benefit expense for future years**

2019	\$ 570
2020	570
2021	570
2022	570
2023	570
Thereafter	<u>121</u>
Total deferred outflows of resources - postemployment medical benefits (OPEB)	<u>\$ 2,971</u>

**Amount of deferred inflows - postemployment medical benefits (OPEB) to be recognized in employee medical benefit expense for future years**

2019	\$ (329)
2020	(329)
2021	(329)
2022	(329)
2023	(71)
Thereafter	<u>-</u>
Total deferred inflows of resources - postemployment medical benefits (OPEB)	<u>\$ (1,387)</u>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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The following table summarizes changes in the net postemployment medical benefit (OPEB) liability from July 1, 2016 to June 30, 2018 and related ratios:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Total postemployment medical benefits (OPEB) liability</b>		
Service cost	\$ 2,948	\$ 3,007
Interest	2,457	2,260
Change of assumptions	3,541	(2,045)
Benefit payments	<u>(1,494)</u>	<u>(1,412)</u>
Net change in postemployment medical benefits (OPEB) liability	7,452	1,810
Total postemployment medical benefits (OPEB) liability (beginning of year)	<u>62,800</u>	<u>60,990</u>
Total postemployment medical benefits (OPEB) liability (end of year)	<u>70,252</u>	<u>62,800</u>
<b>Plan fiduciary net position</b>		
Employer contributions	1,494	1,412
Benefit payments	<u>(1,494)</u>	<u>(1,412)</u>
Net change in fiduciary net position	-	-
Fiduciary net position (beginning of year)	<u>-</u>	<u>-</u>
Fiduciary net position (end of year)	<u>-</u>	<u>-</u>
Net postemployment medical benefits (OPEB) liability (end of year)	<u>\$ 70,252</u>	<u>\$ 62,800</u>
Fiduciary net position as percent of liability	<u>0.0%</u>	<u>0.0%</u>
Covered employee payroll	<u>168,165</u>	<u>146,438</u>
Net postemployment medical benefits (OPEB) liability as percent of covered payroll <sup>1</sup>	<u>41.8%</u>	<u>42.9%</u>

<sup>1</sup> Required disclosure; neither OPEB Plan contributions nor OPEB Plan benefits are based on covered payroll

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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The following table summarizes the actuarial assumptions used to determine net OPEB liability and plan fiduciary net position as of June 30, 2018 and June 30, 2017 (unless otherwise indicated, the same assumption was used for the valuations for both years):

Valuation date	January 1
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Economic assumptions (including 3% inflation)	
Projected salary increases	3.00%
Discount rate	January 1, 2018 - 3.44%
	January 1, 2017 - 3.78%
	January 1, 2016 - 3.57%
Demographic assumptions	
Mortality table for healthy participants	RP-2014 base table with two-dimensional projection scale BB projected generationally
Mortality table for disabled participants	RP-2014 Disabled retiree table
Other assumptions	
Healthcare cost trend rate	Getzen Model of Long-Run Medical Cost Trends
Sensitivity of postretirement employee medical benefits liability at January 1, 2018 to changes in the discount rate, with no other changes -	
1 percent decrease (2.44%)	\$82,374,000
Current discount rate (3.44%)	\$70,252,000
1 percent increase (4.44%)	\$60,538,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2018 to changes in the health cost trend rate, with no other changes -	
1 percent decrease	\$59,825,000
Current healthcare cost trend rate	\$70,252,000
1 percent increase	\$83,488,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2017 to changes in the discount rate, with no other changes -	
1 percent decrease (2.78%)	\$74,979,000
Current discount rate (3.78%)	\$62,800,000
1 percent increase (4.78%)	\$52,736,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2017 to changes in the health cost trend rate, with no other changes -	
1 percent decrease	\$54,082,000
Current healthcare cost trend rate	\$62,800,000
1 percent increase	\$73,772,000

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**13. 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.

Primary insurance coverage types, limits and retention amounts are included below:

Coverage	Policy Limit	Self-insured Retention Per Occurrence
<b>General</b>		
All risk property	\$1,000,000,000	\$ 40,000
Boiler and machinery insurance	100,000,000	10,000
Hospital professional and general liability	40,000,000	25,000
Excess workers' compensation	Statutory	1,250,000
Directors and officers	10,000,000	25,000
Commercial crime	10,000,000	2,500
Automobile insurance	10,000,000	500
Cyber liability	2,000,000	50,000
Cyber excess, including notifications	10,000,000	-
<b>Construction-related</b>		
Owner Controlled Insurance Program - general liability (primary)	2,000,000	500,000
Owner Controlled Insurance Program - general liability (excess)	100,000,000	-
Owner Controlled Insurance Program - workers' compensation	Statutory	500,000
Builders Risk Property		
All risk	235,000,000	50,000
Flood	100,000,000	250,000
Earthquake	25,000,000	5% and 250,000
Owner's Protective Professional Indemnity	15,000,000	250,000

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

The District has actuarial reviews performed annually on its self-insured claims programs, including professional and general liability, directors and officers coverage, workers' compensation, and employee health, vision and dental benefits. Estimated liabilities include amounts for incurred but not reported (IBNR) claims.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**14. 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 vested leave balances are paid in full. As of June 30, 2018 and 2017, the approximate liability for unpaid compensated absences was \$15.3 million and \$15.2 million, respectively.

**15. Commitments and Contingencies**

**Lease Commitments**

DEVCO has operating leases for medical clinic facilities. Rental expense under these leases for both fiscal years 2018 and 2017 was \$3.1 million.

Future minimum rental commitments for fiscal years ended subsequent to June 30, 2018 are as follows:

*(in thousands)*

2019	\$	3,030
2020		2,033
2021		1,172
2022		746
2023		69
Thereafter		48
Total lease commitments	\$	<u>7,098</u>

**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.

**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 not asserted at this time.

**16. Subsequent Events**

The District has evaluated the financial statements for subsequent events through November 26, 2018, which is the date of issuance of this report. Based on the evaluation, no adjustments were required in the accompanying financial statements.



**Required Supplementary Pension and Postemployment  
Benefits Information**

# Washington Township Health Care District

## Required Supplementary Pension and Post-Employment Benefit Information

(unaudited)

### Pension Plan Portfolio

Long term expected rate of returns are forecasted on a forward-looking basis by each asset class. Then the total portfolio's return is forecasted by combining returns of the asset classes based on the Plan's asset allocation targets as well as the asset classes' diversification benefits. The forecasting method takes into consideration current market conditions, as well as potential future changes, such as yield shifts or valuation changes. For example, equity asset class methodology includes two models that focus on variables including expected earnings growth, dividend income and expected inflation to triangulate on a reasonable expected return. Fixed income models rely heavily on the existing yield environment but current projections assume a rising rate environment, given that prevailing yields are near historic lows. The forecasting methodology combines insights of expected returns for the next immediate period and a long term equilibrium period, to maintain capital markets' long term integrity.

The expected rates of return are presented as geometric means. The details are summarized in the following table:

		Long Term		
<b>Total portfolio</b>		7.50 %		
<b>Total portfolio asset allocation</b>			<b>Asset Class Expected Returns</b>	
U.S. Equity	35 %			8.50 %
Non U.S. Equity	25 %			8.60 %
Core fixed income	20 %			5.20 %
Opportunistic credit	15 %			6.80 %
Real assets	5 %			6.00 %
<b>Total</b>		<u>100 %</u>		

### Defined Benefit Retirement Plan

The District's actuarially determined contribution and actual contributions, for this plan year and the nine plan years prior, are presented in the following table:

<i>(in thousands)</i>	<b>Actuarially Determined Contribution</b>	<b>Actual Contribution</b>	<b>Contribution Excess (Deficiency)</b>	<b>Covered Payroll</b>	<b>Contributions as % of Covered Payroll</b>
<b>Fiscal Year Ended</b>					
2009	\$ 10,004	\$ 8,500	\$ (1,504)	\$ 104,827	8.11%
2010	12,594	-	(12,594)	121,053	0.00%
2011	15,683	-	(15,683)	131,700	0.00%
2012	18,344	-	(18,344)	142,590	0.00%
2013	19,800	-	(19,800)	145,324	0.00%
2014	18,500	134,026	115,526	144,445	92.79%
2015	18,000	22,700	4,700	136,999	16.57%
2016	17,700	22,100	4,400	142,319	15.53%
2017	22,300	22,000	(300)	146,438	15.02%
2018	23,100	22,300	(800)	168,165	13.26%
	<u>\$ 176,025</u>	<u>\$ 231,626</u>	<u>\$ 55,601</u>		

# Washington Township Health Care District

## Required Supplementary Pension and Post-Employment Benefit Information

(unaudited)

<sup>1</sup> For the years 2010 to 2013, the District Board set aside the following amounts in accounts designated for future pension funding, all of which were included in the 2014 Actual Contribution amount of \$134,026,000:

2010	\$ 22,000,000
2011	22,000,000
2012	19,000,000
2013	<u>21,800,000</u>
Total pension funding for years 2010 to 2013 included in 2014 actual contribution	<u>\$ 84,800,000</u>

The following table summarizes changes in net pension liability from July 1, 2012 to June 30, 2018:

	2018	2017	2016	2015	2014	2013
<b>Total pension liability</b>						
Service cost	\$ 6,500	\$ 6,494	\$ 5,669	\$ 5,434	\$ 5,456	\$ 6,580
Interest	24,436	24,263	23,657	21,585	20,223	19,283
Difference between expected and actual experience	15,019	8,244	(13,656)	578	4,395	(5,173)
Change in assumptions	-	-	-	14,522	362	2,148
Benefit payments	<u>(15,043)</u>	<u>(30,410)</u>	<u>(13,760)</u>	<u>(13,762)</u>	<u>(11,483)</u>	<u>(9,298)</u>
Net change in total pension liability	30,912	8,591	1,910	28,357	18,953	13,540
Total pension liability (beginning of year)	<u>334,206</u>	<u>325,615</u>	<u>323,705</u>	<u>295,348</u>	<u>276,395</u>	<u>262,855</u>
Total pension liability (end of year) (a)	<u>365,118</u>	<u>334,206</u>	<u>325,615</u>	<u>323,705</u>	<u>295,348</u>	<u>276,395</u>
<b>Plan fiduciary net position</b>						
Employer contributions	22,300	22,000	27,100	36,200	115,526	-
Employee contributions	980	732	374	139	-	-
Net investment income	42,293	7,817	1,740	10,805	19,342	12,619
Benefit payments	(15,043)	(30,410)	(13,760)	(13,762)	(11,483)	(9,298)
Administrative expense	(252)	(216)	(64)	(65)	(62)	(69)
Other	<u>(1)</u>	<u>(126)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fiduciary net position	50,277	(203)	15,390	33,317	123,323	3,252
Plan fiduciary net position (beginning of year)	<u>272,452</u>	<u>272,655</u>	<u>257,265</u>	<u>223,948</u>	<u>100,625</u>	<u>97,373</u>
Plan fiduciary net position (end of year) (b)	<u>322,729</u>	<u>272,452</u>	<u>272,655</u>	<u>257,265</u>	<u>223,948</u>	<u>100,625</u>
Net pension liability (end of year) (a) - (b)	<u>\$ 42,389</u>	<u>\$ 61,754</u>	<u>\$ 52,960</u>	<u>\$ 66,440</u>	<u>\$ 71,400</u>	<u>\$ 175,770</u>
Plan fiduciary net position as percent of total pension liability	88.4 %	81.5 %	83.7 %	79.5 % <sup>1</sup>	75.8 % <sup>1</sup>	36.4 %
Covered payroll	168,165	146,438	142,319	136,999	144,445	145,324
Net pension liability as percent of covered payroll	<u>25.2 %</u>	<u>42.2 %</u>	<u>37.2 %</u>	<u>48.5 % <sup>2</sup></u>	<u>49.4 % <sup>2</sup></u>	<u>121.0 %</u>
<b>Deferred outflows of resources</b>						
Employer contributions after measurement date	\$ -	\$ -	\$ -	\$ 5,000	\$ 18,500	\$ -
<sup>1</sup> Fiduciary net position as percent of liability including deferred outflows of resources	88.4 %	81.5 %	83.7 %	81.0 %	82.1 %	36.4 %
<sup>2</sup> Net OPEB liability as percent of covered payroll including deferred outflows of resources	25.2 %	42.2 %	37.2 %	44.8 %	36.6 %	121.0 %

# Washington Township Health Care District

## Required Supplementary Pension and Post-Employment Benefit Information

(unaudited)

### Defined Benefit Post-Employment Medical Plan (OPEB)

The following table summarizes contributions to the OPEB Plan for the current plan year and fiscal year 2017 (year of GASB 75 adoption):

<i>(in thousands)</i>	<b>Actuarially Determined Contribution</b>	<b>Actual Contribution</b>	<b>Contribution Excess (Deficiency)</b>	<b>Covered Payroll<sup>1</sup></b>	<b>Contributions as % of Covered Payroll<sup>1</sup></b>
<b>Fiscal Year Ended</b>					
2017	5,099	1,455	(3,644)	146,438	0.99%
2018	5,451	5,995	544	168,165	3.56%
	<u>\$ 10,550</u>	<u>\$ 7,450</u>	<u>\$ (3,100)</u>		

<sup>1</sup> Required disclosure; neither OPEB Plan contributions nor OPEB Plan benefits are based on covered payroll

The following table summarizes changes in the net postemployment medical benefits (OPEB) liability for the current plan year and fiscal year 2017 (year of GASB 75 adoption) and related ratios:

<i>(in thousands)</i>	<b>2018</b>	<b>2017</b>
<b>Total postemployment medical benefits (OPEB) liability</b>		
Service cost	\$ 2,948	\$ 3,007
Interest	2,457	2,260
Change of assumptions	3,541	(2,045)
Benefit payments	<u>(1,494)</u>	<u>(1,412)</u>
Net change in postemployment medical benefits (OPEB) liability	7,452	1,810
Total postemployment medical benefits (OPEB) liability (beginning of year)	<u>62,800</u>	<u>60,990</u>
Total postemployment medical benefits (OPEB) liability (end of year)	<u>70,252</u>	<u>62,800</u>
<b>Plan fiduciary net position</b>		
Employer contributions	1,494	1,412
Benefit payments	<u>(1,494)</u>	<u>(1,412)</u>
Net change in fiduciary net position	-	-
Fiduciary net position (beginning of year)	<u>-</u>	<u>-</u>
Fiduciary net position (end of year)	<u>-</u>	<u>-</u>
Net postemployment medical benefits (OPEB) liability (end of year)	<u>\$ 70,252</u>	<u>\$ 62,800</u>
Fiduciary net position as percent of liability	<u>0.0%</u> <sup>1</sup>	<u>0.0%</u>
Covered employee payroll	<u>168,165</u>	<u>146,438</u>
Net postemployment medical benefits (OPEB) liability as percent of covered payroll <sup>3</sup>	<u>41.8%</u> <sup>2</sup>	<u>42.9%</u>
<b>Deferred outflows of resources</b>		
Employer contributions after measurement date	\$ 4,500	\$ -
<sup>1</sup> Fiduciary net position as percent of liability including deferred outflows of resources	6.4 %	0.0 %
<sup>2</sup> Net OPEB liability as percent of covered payroll including deferred outflows of resources	39.1 %	42.9 %

<sup>3</sup> Required disclosure; neither OPEB Plan contributions nor OPEB Plan benefits are based on covered payroll

# Washington Township Health Care District

## Required Supplementary Pension and Post-Employment Benefit Information

(unaudited)

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The following table summarizes the actuarial assumptions used to determine net OPEB liability and plan fiduciary net position as of June 30, 2018 and June 30, 2017 (unless otherwise indicated, the same assumption was used for the valuations for both years):

Valuation date	January 1
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Economic assumptions (including 3% inflation)	
Projected salary increases	3.00%
Discount rate	January 1, 2018 - 3.44%
	January 1, 2017 - 3.78%
	January 1, 2016 - 3.57%
Demographic assumptions	
Mortality table for healthy participants	RP-2014 base table with two-dimensional projection scale BB projected generationally
Mortality table for disabled participants	RP-2014 Disabled retiree table
Other assumptions	
Healthcare cost trend rate	Getzen Model of Long-Run Medical Cost Trends
Sensitivity of postretirement employee medical benefits liability at January 1, 2018 to changes in the discount rate, with no other changes -	
1 percent decrease (2.44%)	\$82,374,000
Current discount rate (3.44%)	\$70,252,000
1 percent increase (4.44%)	\$60,538,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2018 to changes in the health cost trend rate, with no other changes -	
1 percent decrease	\$59,825,000
Current healthcare cost trend rate	\$70,252,000
1 percent increase	\$83,488,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2017 to changes in the discount rate, with no other changes -	
1 percent decrease (2.78%)	\$74,979,000
Current discount rate (3.78%)	\$62,800,000
1 percent increase (4.78%)	\$52,736,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2017 to changes in the health cost trend rate, with no other changes -	
1 percent decrease	\$54,082,000
Current healthcare cost trend rate	\$62,800,000
1 percent increase	\$73,772,000