

**Washington Township**  
**Health Care District**  
Financial Statements  
June 30, 2017 and 2016

**Washington Township Health Care District**  
**Index**  
**June 30, 2017 and 2016**

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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, 2017 and June 30, 2016, 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 opinions.

### ***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, 2017 and June 30, 2016, 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.



***Other Matter***

The accompanying management's discussion and analysis on pages 3 through 20 and the required supplemental information on pages 59 through 63 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.

*Princeton & Associates LLP*

November 15, 2017

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (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 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.

## District Financial Highlights for Fiscal Year 2017

- The District generated operating income of \$12.6 million for fiscal year 2017, compared with operating income of \$17.1 million for fiscal year 2016, a decrease of \$4.5 million. When non-operating revenues, expenses and special items are included, the District realized a \$17.9 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 \$16.9 million (3.6 percent), due to increased patient activity, offset by an increased percentage of patients covered by government payors.
  - Other revenue increased \$4.6 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 \$26.1 million (5.6 percent), with salaries and benefits increasing by \$11.7 million (4.5 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 main Hospital 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.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)

## 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 \$36.3 million, from \$775.7 million at June 30, 2016 to \$812.0 million at June 30, 2017. Accounting for the majority of this 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 post-retirement obligations increased by \$11.2 million from \$91.8 million to \$103.0 million. Current liabilities decreased by \$3.3 million from \$130.3 million to \$124.5 million attributable primarily to a lower level of accrued payroll liabilities at June 30, 2017.
- Total net position of \$338.1 million at June 30, 2017 was \$17.9 million more than the net position of \$320.2 million at June 30, 2016.

Table 1 provides a summary of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Current assets	\$ 164,217	\$ 165,645	\$ 123,501
Long-term investment and restricted funds	267,569	387,386	332,675
Capital assets, net	680,394	517,761	428,860
Other assets	7,808	8,614	7,859
Total assets	<u>1,119,988</u>	<u>1,079,406</u>	<u>892,895</u>
Deferred outflows of resources	38,609	33,111	31,194
Total assets and deferred outflows of resources	<u>\$ 1,158,597</u>	<u>\$ 1,112,517</u>	<u>\$ 924,089</u>
<b>Liabilities</b>			
Current liabilities	\$ 121,987	\$ 130,325	\$ 102,094
Net pension liability	61,754	52,960	66,440
Long-term debt	580,067	546,633	406,128
Other long-term liabilities	48,185	45,825	42,964
Total liabilities	<u>811,993</u>	<u>775,743</u>	<u>617,626</u>
Deferred inflows of resources	8,546	16,614	11,199
<b>Net position</b>			
Net investment in capital assets	231,998	175,504	159,456
Restricted - expendable	2,802	2,801	2,801
Restricted for minority interest	4,527	4,783	5,488
Unrestricted	98,731	137,072	127,519
Total net position	<u>338,058</u>	<u>320,160</u>	<u>295,264</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 1,158,597</u>	<u>\$ 1,112,517</u>	<u>\$ 924,089</u>

**Washington Township Health Care District  
Management’s Discussion and Analysis  
Years Ended June 30, 2017 and 2016 (unaudited)**

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In 2017, the District’s available cash and investments decreased by \$111.9 million.

Table 2 provides a summary of cash and investments as of June 30, 2017, 2016 and 2015.

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents and short-term investments	\$ 86,199	\$ 78,281	\$ 43,216
Board designated fund – funded depreciation	115,571	163,067	175,420
Workers’ compensation fund	11,898	11,998	11,648
Unexpended capital bond funds, excluding amounts required for current liabilities	137,299	209,520	142,806
Specific purpose fund	<u>2,801</u>	<u>2,801</u>	<u>2,801</u>
Total available cash and investments	<u>\$ 353,768</u>	<u>\$ 465,667</u>	<u>\$ 375,891</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.

**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 2017A, 2017B, 2015, 2010 and 2009 Series Revenue Bonds, the District has agreed that Washington 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, Washington Hospital’s long-term debt service coverage ratio was 3.8 to 1.0. During the year ended June 30, 2017, Washington 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 33.9 percent at June 30, 2017, was slightly higher than the percentage of 32.4 percent at June 30, 2016, reflecting the effects of both the refunding of the 2007 Revenue Bonds (replaced by the 2017B Revenue Refunding Bonds) and the issuance of the new money 2017A Revenue Bonds.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)

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

Table 3 shows the revenues, expenses, and changes in net position for the District for the years ended June 30, 2017, 2016 and 2015:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Operating revenues</b>			
Net patient service revenues	\$ 489,952	\$ 473,131	\$ 475,739
Other	14,752	9,986	7,143
Total operating revenues	<u>504,704</u>	<u>483,117</u>	<u>482,882</u>
<b>Operating expenses</b>			
Salaries and wages	201,339	193,549	180,310
Employee benefits	73,330	69,380	67,872
Supplies	58,701	56,005	55,602
Professional fees	70,077	62,654	61,556
Purchased services	38,212	35,847	38,229
Depreciation	34,807	34,355	33,971
Insurance	1,264	1,586	1,895
Other operating expenses	14,415	12,644	15,554
Total operating expenses	<u>492,145</u>	<u>466,020</u>	<u>454,989</u>
Operating income	12,559	17,097	27,893
Nonoperating revenues and expenses, net	<u>6,947</u>	<u>8,969</u>	<u>1,032</u>
Increase in net position before minority interest and restricted funds	19,506	26,066	28,925
Additional minority interest capital received	-	-	151
Minority interest distributions	<u>(1,608)</u>	<u>(1,170)</u>	<u>(1,944)</u>
Increase in net position	17,898	24,896	27,132
<b>Net position</b>			
Beginning of year	<u>320,160</u>	<u>295,264</u>	<u>268,132</u>
End of year	<u>\$ 338,058</u>	<u>\$ 320,160</u>	<u>\$ 295,264</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 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.



**Washington Township Health Care District  
Management's Discussion and Analysis  
Years Ended June 30, 2017 and 2016 (unaudited)**

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Table 4 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)
	<u>60,660</u>	<u>57,174</u>	6.1
Newborn	<u>3,765</u>	<u>3,995</u>	(5.8)
Total patient days	<u>64,425</u>	<u>61,169</u>	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 non-newborn inpatient 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.

***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.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)

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## ***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.

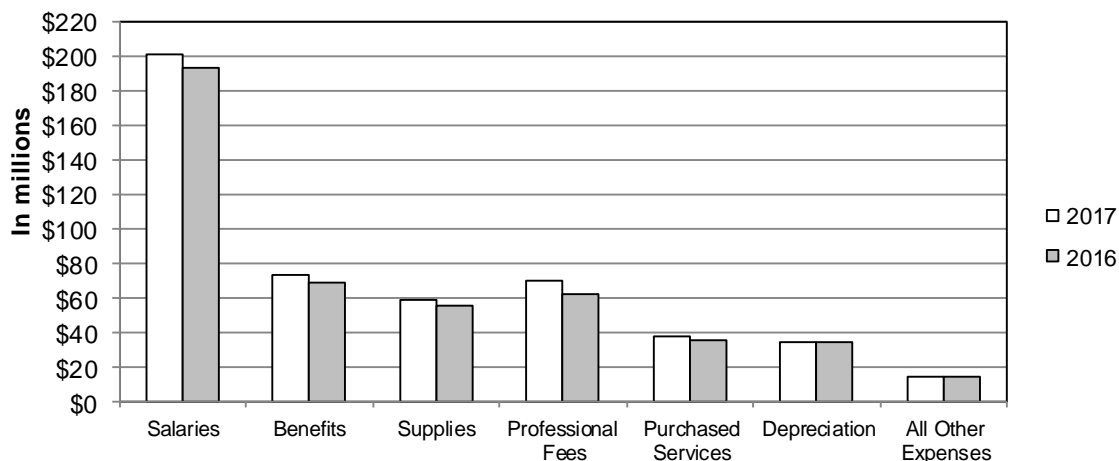
In addition to the charity care described above, the estimated cost in excess of reimbursement for patients covered by Medi-Cal and Medi-Cal HMO programs was \$55 million for both fiscal years 2017 and 2016, and the estimated cost in excess of reimbursement for services provided to Medicare and Medicare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

## ***Operating Expenses***

Total operating expenses were \$492 million and \$466 million for fiscal years 2017 and 2016, respectively, as summarized in the graph below:



Total operating expenses increased by \$26 million (5.6 percent) from 2016 to 2017, with the largest dollar increase (\$7.8 million) attributable to salaries and wages expense, and the next largest dollar increase attributable to professional fees (\$7.4 million).

# Washington Township Health Care District

## Management's Discussion and Analysis

### Years Ended June 30, 2017 and 2016 (unaudited)

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#### ***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. 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 \$4.0 million (5.7 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.

#### ***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.

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (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 until) 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 significantly from these estimates.

## 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.

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. Whether or not the ACA remains in place, the existing marketplace instability is expected to impact insurance premiums. For example, the Covered California Exchange is expecting a 13.2 percent increase in premiums for 2018, which could result in fewer people electing to purchase coverage on the exchange. It has become increasingly difficult for providers to make short-term plans or projections, in light of the continued uncertainty in the healthcare environment, much less make longer term forecasts.

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.

## **Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)**

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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.

### **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. For fiscal year 2016, the District's revenues included \$0.3 million in Medi-Cal EHR funding. 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 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.

**Washington Township Health Care District  
Management's Discussion and Analysis  
Years Ended June 30, 2017 and 2016 (unaudited)**

**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.

Table 5 provides a summary of the Foundation's assets, liabilities, and net assets as of June 30, 2017, 2016 and 2015:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,230	\$ 612	\$ 311
Contributions receivable, net	1,324	1,143	1,183
Short term investments held by District on behalf of Foundation	3,807	4,276	4,456
Long term investments, unrestricted	107	104	-
Prepaid expenses and other	-	1	76
Investments	1,619	1,432	1,514
<b>Total assets</b>	<b>\$ 8,087</b>	<b>\$ 7,568</b>	<b>\$ 7,540</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 26	\$ 97	\$ -
<b>Total liabilities</b>	<b>26</b>	<b>97</b>	<b>-</b>
<b>Net assets</b>			
Restricted - expendable	7,723	7,074	6,969
Unrestricted	338	397	571
<b>Total net assets</b>	<b>8,061</b>	<b>7,471</b>	<b>7,540</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,087</b>	<b>\$ 7,568</b>	<b>\$ 7,540</b>

In fiscal year 2017 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 increased \$0.4 million, from \$6.4 million at June 30, 2016 to \$6.8 million at June 30, 2017.

Table 6 provides a summary of cash and investments for the Foundation as of June 30, 2017, 2016 and 2015:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 1,230	\$ 612	\$ 311
Money market and certificates of deposit	533	529	528
Equity mutual fund	1,193	1,007	986
	2,956	2,148	1,825
Local agency investment funds held by District on behalf of Foundation	3,807	4,276	4,456
<b>Total available cash and investments</b>	<b>\$ 6,763</b>	<b>\$ 6,424</b>	<b>\$ 6,281</b>

# Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)

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

Table 7 shows the Foundation's activities and changes in net position for 2017, 2016 and 2015:

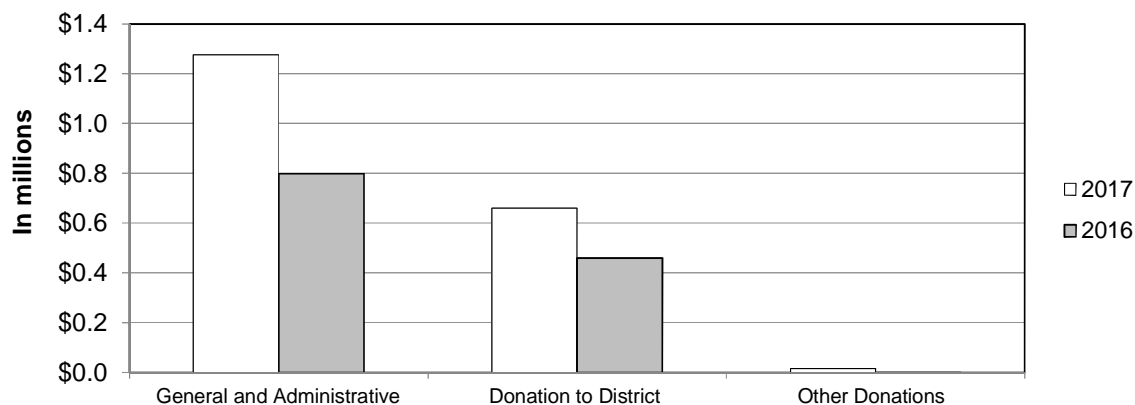
(in thousands)	2017			2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues, gains, and support</b>									
Contributions	\$ 3	\$ 1,612	\$ 1,615	\$ 39	\$ 839	\$ 878	\$ 67	\$ 701	\$ 768
Contributed services	670	32	702	249	23	272	245	15	260
Investment income	58	-	58	41	-	41	33	-	33
Unrealized gain (loss) on investments	163	-	163	2	-	2	48	-	48
	894	1,644	2,538	331	862	1,193	393	716	1,109
Net assets released from restrictions	1,021	(1,021)	-	817	(817)	-	564	(564)	-
Total revenues, gains, and support	1,915	623	2,538	1,148	45	1,193	957	152	1,109
<b>Expenses</b>									
General and administrative	1,276	-	1,276	799	-	799	635	-	635
Donation to Pathways Hospice	10	-	10	-	-	-	10	-	10
Donation to HERS Breast Cancer Foundation	-	-	-	4	-	4	-	-	-
Donation to Washington Hospital Service League	3	-	3	-	-	-	-	-	-
Donation to Washington Township Health Care District	659	-	659	459	-	459	168	-	168
Total expenses	1,948	-	1,948	1,262	-	1,262	813	-	813
Increase (decrease) in net position	(33)	623	590	(114)	45	(69)	144	152	296
<b>Net position</b>									
Beginning of year	397	7,074	7,471	571	6,969	7,540	427	6,817	7,244
Transfers	(26)	26	-	(60)	60	-	-	-	-
End of year	\$ 338	\$ 7,723	\$ 8,061	\$ 397	\$ 7,074	\$ 7,471	\$ 571	\$ 6,969	\$ 7,540

### 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 Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)

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## District Financial Highlights for Fiscal Year 2016

- The District generated operating income of \$17.1 million compared with operating income of \$27.9 million for fiscal year 2015, a decrease of \$10.8 million. When non-operating revenues, expenses and special items are included, the District realized a \$24.9 million increase in net position for the twelve months ended June 30, 2016, compared with an increase of \$27.1 million for the previous twelve month period.
- Major items that impacted the District's operating results for the fiscal year ended June 30, 2016 (fiscal year 2016), as compared to those for the fiscal year ended June 30, 2015 (fiscal year 2015), included:
  - Net patient revenues decreased \$2.6 million (0.5 percent), due to decreased patient activity offset by a more favorable payor mix. The improvement in payor mix was due to increases in managed care volumes (particularly from preferred provider organizations).
  - Operating expenses increased \$11.0 million (2.4 percent), with salaries and benefits increasing by \$14.7 million (5.9 percent) and all other expenses decreasing by a net amount of \$3.7 million (1.8 percent) in total.
- Regarding the District's net position as of June 30, 2016, the most significant changes resulted from the issuance of \$145.5 million in new general obligation debt, representing the balance remaining from the amount authorized by District voters as Measure Z in November 2012. The proceeds of this issue are intended to finance continued construction of the Morris Hyman Critical Care Pavilion. Also in fiscal year 2016, the District refinanced two existing issues, the 1999 Revenue bonds and the 2006 general obligation bonds, in order to take advantage of favorable interest rates. The refinancing of both of these issues will result in significant reductions in interest expense costs in future years.
- Impact of changes in accounting guidance:

For fiscal year 2016, the District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 72, *Fair Value Measurement and Application*. GASB No. 72 requires disclosure of fair value measurements, and methods used to determine these measurements, for certain assets and liabilities. Adoption of the standard resulted in additional footnote disclosure but did not have an impact on the amounts reported.

## **Analysis of the District's Net Position – Fiscal Year 2016**

- Total assets increased \$186.5 million, from \$892.9 million at June 30, 2015 to \$1,079.4 million at June 30, 2016. Total cash and investments increased by \$89.8 million, from \$375.9 million to \$465.7 million, while net patient accounts receivable increased by \$0.9 million from \$68.0 million to \$68.9 million. Days of gross revenue in accounts receivable were 59.2 at June 30, 2016 as compared to 65.1 at June 30, 2015. Net capital assets increased \$88.9 million, from \$428.9 million to \$517.8 million.
- Total liabilities increased \$158.1 million, from \$617.6 million at June 30, 2015 to \$775.7 million at June 30, 2016. Accounting for the majority of this increase, long-term debt increased by \$140.5 million, from \$406.1 million to \$546.6 million, as a result of the issuance of additional general obligation debt. The increase in current liabilities from \$102.1 million to \$130.3 million was primarily attributable to amounts due for the construction in progress.



## **Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)**

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- Total net position of \$320.2 million at June 30, 2016 was \$24.9 million more than the net position of \$295.3 million at June 30, 2015.

### ***Capital Assets, Net – Fiscal Year 2016***

Net capital assets increased \$88.9 million, from \$428.9 million at June 30, 2015 to \$517.8 million at June 30, 2016. This increase resulted from \$109.0 million in capital additions and \$14.7 million in net capitalized interest expense, offset by \$34.8 million in depreciation. The net capital additions included \$4.1 million in equipment, building, and land improvements combined with an increase of \$119.6 million in construction in progress, primarily related to the new parking garage and Critical Care Pavilion projects. At June 30, 2016, outstanding commitments related to capital projects totaled \$190 million.

### ***Debt Administration – Fiscal Year 2016***

As part of the obligations under the bond indentures for the 2015, 2010, 2009, 2007 and 1999 Series Revenue Bonds, the District has agreed that Washington 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, 2016, Washington Hospital's long-term debt service coverage ratio was 4.4 to 1.0. During the year ended June 30, 2016, Washington 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, improved during fiscal year 2016, from 35.3 percent at June 30, 2015 to 32.4 percent at June 30, 2016.

### ***Revenue and Expense Analysis for the District – Fiscal Year 2016***

#### ***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 28 percent of gross revenues, with the balance of gross revenues attributable to uninsured individuals.

Net patient service revenues decreased by \$2.6 million (0.5 percent), from \$475.7 million in fiscal year 2015 to \$473.1 million in fiscal year 2016.

#### ***Inpatient Business Activity***

The District's gross inpatient revenue increased by \$15 million (1.0 percent), from \$1.478 billion in fiscal year 2015 to \$1.493 billion in fiscal year 2016.

**Washington Township Health Care District  
Management's Discussion and Analysis  
Years Ended June 30, 2017 and 2016 (unaudited)**

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

<b>Specialty</b>	<b>2016 Days</b>	<b>2015 Days</b>	<b>% Change</b>
Medical/surgical	42,160	42,815	(1.5)%
Critical care	7,870	7,865	0.1
Special care nursery	1,415	1,276	10.9
Pediatrics	379	396	(4.3)
Obstetrics	5,350	5,200	2.9
	<u>57,174</u>	<u>57,552</u>	<u>(0.7)</u>
Newborn	<u>3,995</u>	<u>3,917</u>	<u>2.0</u>
Total patient days	<u>61,169</u>	<u>61,469</u>	<u>(0.5)%</u>

Although admissions increased from 12,070 in fiscal year 2015 to 12,185 in fiscal year 2016, the average length of stay declined from 4.74 to 4.63 days, resulting in a decrease in inpatient days of 300 (0.5 percent), as indicated in the table above.

The overall case mix index for the District, which is a measure of patient acuity, increased from 1.472 in fiscal year 2015 to 1.525 in fiscal year 2016. The Medicare case mix index for the same period also increased from 1.684 to 1.727.

Inpatient surgeries increased by 236 (7.1 percent), from 3,301 in fiscal year 2015 to 3,537 in fiscal year 2016.

Inpatient cardiac catheterization procedures decreased by 205 (8.9 percent), from 2,298 to 2,093.

Deliveries increased by 18 (1.0 percent), from 1,843 to 1,861.

***Outpatient Business Activity***

The District's gross outpatient revenue decreased by \$27.3 million (4.2 percent), from \$652.1 million in fiscal year 2015 to \$624.8 million in fiscal year 2016.

Emergency room visits declined by 1,429 (2.6 percent) from 54,262 in fiscal year 2015 to 52,833 in fiscal year 2016; outpatient visits declined by 3,128 (3.5 percent) from 88,537 to 85,409.

Outpatient catheterization lab procedures declined by 316 (12.0 percent) from 2,641 to 2,325. Outpatient surgeries performed at the hospital increased by 231 (23.1 percent), from 1,001 to 1,232. This increase was primarily related to additional cases performed during the five week period that the Washington Outpatient Surgery Center (WOSC) was closed due to water damage.

Surgeries performed at the WOSC decreased by 1,772 (23.9 percent), from 7,415 in fiscal year 2015 to 5,643 in fiscal year 2016. In addition to the decline in cases related to the water damage closure mentioned above, the decrease in activity was largely due to the opening in April 2015 of a competing surgery center nearby. The new surgery center is operated by a large physician-owned medical group that employs some of the surgeons who have traditionally performed their cases at the WOSC.

# Washington Township Health Care District Management’s Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)

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## ***Deductions from Revenue***

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 75.63 percent and 76.11 percent for fiscal year 2016 and 2015, respectively. The decrease resulted primarily from a slight reduction in the proportion of patients covered by government payors, in particular Medi-Cal, and an increase in the proportion of patients in the private pay classification.

## ***Charity Care***

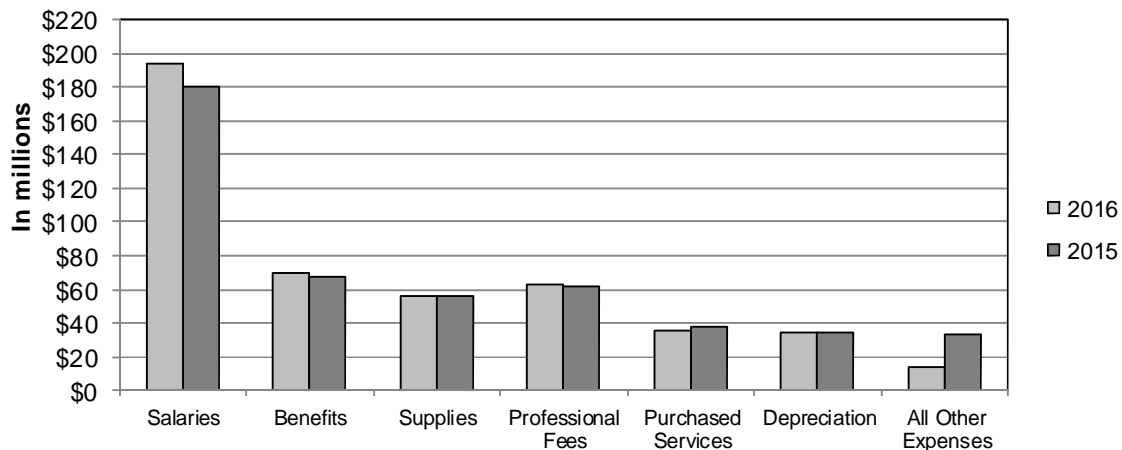
The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$5.2 million and \$8.2 million in charges foregone related to charity care for patient services during fiscal years 2016 and 2015, respectively. Private pay revenues increased from \$42.5 million in fiscal year 2015 to \$45.6 million in fiscal year 2016.

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

The provision for bad debt (expressed as a percentage of gross revenues) was 1.98 percent in fiscal year 2016, compared to 1.47 percent in fiscal year 2015. As noted above, there was an increase in private pay revenues in fiscal year 2016. The decline in charity care and increase in bad debt resulted from a decrease in the proportion of self-pay accounts eligible for charity care under the District’s financial assistance policy.

## ***Operating Expenses***

Total operating expenses were \$466 million and \$455.0 million for fiscal years 2016 and 2015, respectively, as summarized in the graph below:



Total operating expenses increased by \$11.0 million (2.4 percent) from 2015 to 2016, with the most significant increases attributable to wage-related expenses.

## **Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)**

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### ***Salaries and Wages***

- Salaries and wages increased by \$13.2 million (7.3 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. Hospital's FTEs at June 30, 2016 were 1,392, an increase of 53 FTEs (4.0 percent) over the 1,339 FTEs at June 30, 2015.
- As of June 2016, approximately 68 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 \$1.5 million (2.2 percent). Although the overall rate of increase in benefit costs was relatively low, reductions in multiple benefits expense categories were offset by approximately \$2.6 million (8.5 percent) in additional health insurance expenses in fiscal year 2016.

### ***Other Operating Expenses***

- Supplies expense increased \$0.4 million (0.7 percent) in fiscal year 2016. Depreciation also increased \$0.4 million (1.1 percent). Professional fees increased by \$1.1 million (1.8 percent) and purchased services decreased by \$2.4 million (6.2 percent), in fiscal year 2016. Other expenses decreased in fiscal year 2016 by \$2.9 million due to non-recurring items included in fiscal year 2015.

### ***Non-Operating Income/Expense***

The most significant changes in non-operating activity for fiscal year 2016 were the following items:

- Interest expense decreased by \$1.2 million due to the amount of capitalized interest for fiscal year 2016 increasing by \$4.1 million over the amount for fiscal year 2015, and refinancing of existing debt at more favorable interest rates.
- The increase in the fair value of investments for fiscal year 2016 of \$0.9 million reflected a swing of \$1.9 million from the \$1.0 million decrease in fair value experienced in fiscal year 2015.
- Property tax revenues of \$15.8 million for fiscal year 2016 were \$5.9 million more than for fiscal year 2015 (\$9.9 million), related to the issuance of additional general obligation debt in fiscal year 2016.
- Bond issuance costs of \$1.7 million were incurred in fiscal year 2016 in relation to additional revenue and general obligation debt incurred and/or refinanced. The bond issuance costs were funded entirely from the bond proceeds.

# **Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)**

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## **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"). 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. The Affordable Care Act has been the subject of much political debate and disagreement and the current health care landscape remains heavily politicized and highly volatile, particularly with the approach of the 2016 presidential election.

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, 2016. 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, 2016 and 2015, the reduction in reimbursement was \$1.9 million and \$2.0 million, respectively.

In addition to sequestration reductions, Medicare Disproportionate Share (DSH) payments to eligible hospitals were significantly reduced in 2014. For fiscal years 2016 and 2015, DSH payments received were \$6.4 million and \$7.6 million, respectively.

## **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 year 2016, the District's revenues included \$1.1 million in Medicare EHR and \$0.2 million in Medi-Cal EHR funding. Based on the timing of the attestation process, the District did not recognize any EHR revenues for fiscal year 2015.

## **Economic Factors Expected to Affect the District's 2017 Operations**

The Board of Directors of the District approved the fiscal year 2017 operating budget at their June 2016 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 2017 budget anticipates a 7.8 percent increase in expenditures from the fiscal year 2016 level. This increase includes a 5.7 percent increase in salaries and wages, resulting from a 3.2 percent projected increase in inpatient days, in combination with contractual salary increases.

# Washington Township Health Care District Management’s Discussion and Analysis Years Ended June 30, 2017 and 2016 (unaudited)

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At the same time, downward pressures on reimbursement are expected to continue. In estimating net revenues for fiscal year 2017, 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 2016

- Total assets of \$7.6 million at June 30, 2016 increased \$0.1 million from \$7.5 million at June 30, 2015. Total cash and investments increased \$0.1 million, from \$6.3 million to \$6.4 million, while net contributions receivable decreased \$0.1 million from \$1.2 million to \$1.1 million.
- Net assets of \$7.5 million remained unchanged during 2016.

### Analysis of the Foundation’s Net Assets – Fiscal Year 2016

Total Foundation assets of \$7.6 million at June 30, 2016 increased by \$0.1 million from June 30, 2015. Total Foundation liabilities increased by \$0.1 million, from zero at June 30, 2015 to \$0.1 million as of June 30, 2016 and the Foundation’s net assets remained unchanged at \$7.5 million as of June 30, 2016 and June 30, 2015.

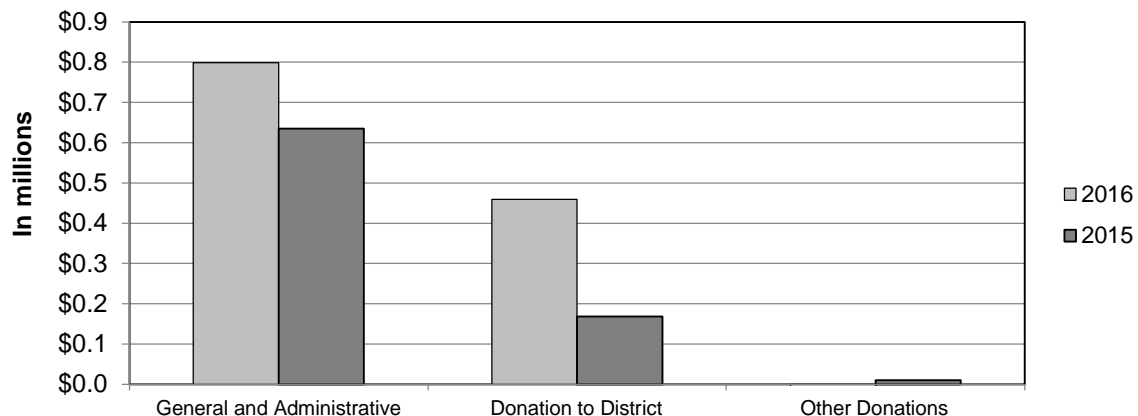
### Revenue and Expense Analysis for the Foundation – Fiscal Year 2016

#### *Revenues, Gains and Support*

Total revenues, gains and support increased 4.8 percent from \$1.1 million in fiscal year 2015 to \$1.2 million in fiscal year 2016. Contributions of \$0.8 million were consistent in fiscal year 2016 and fiscal year 2015.

#### *Expenses*

Total expenses for the Foundation were \$1.3 million and \$0.8 million for fiscal years 2016 and 2015, respectively, as summarized in the graph below:



# Washington Township Health Care District

## Statements of Net Position

### June 30, 2017 and 2016

(in thousands)

	District		Foundation	
	2017	2016	2017	2016
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 52,402	\$ 43,485	\$ 1,230	\$ 612
Short-term investments	33,797	34,796	1,619	1,432
Short-term investments held by District on behalf of Foundation	-	-	3,807	4,276
Patient accounts receivable, less allowance for estimated uncollectibles of \$20,756 and \$21,306 in 2017 and 2016, respectively	64,628	68,920	-	-
Contributions receivable, net, due in less than 1 year	-	-	75	158
Due from third party payors	852	3,944	-	-
Supplies	3,262	3,046	-	-
Prepaid expenses and other	9,276	11,454	-	1
Total current assets	164,217	165,645	6,731	6,479
Long-term investment and restricted funds				
Board-designated for capital, debt and workers' compensation	127,469	175,065	-	-
Held by trustee	137,299	209,520	-	-
Restricted funds	2,801	2,801	-	-
Unrestricted	-	-	107	104
Capital assets, net	680,394	517,761	-	-
Other assets				
Contributions receivable, net, due in more than 1 year	-	-	1,249	985
Other noncurrent assets	7,808	8,614	-	-
Total assets	1,119,988	1,079,406	8,087	7,568
Deferred outflows of resources				
Deferred outflows of resources - goodwill	5,377	6,050	-	-
Deferred outflows of resources - pension	33,232	27,061	-	-
Total deferred outflows	38,609	33,111	-	-
Total assets and deferred outflows of resources	\$ 1,158,597	\$ 1,112,517	\$ 8,087	\$ 7,568
<b>Liabilities and Net Position</b>				
Current liabilities				
Current portion of long-term debt	\$ 5,628	\$ 5,144	\$ -	\$ -
Accounts payable and accrued expenses	44,821	47,203	26	97
Due to foundation	3,807	4,276	-	-
Due to third party payors	9,894	12,826	-	-
Accrued liabilities				
Payroll related	10,245	15,286	-	-
Vacation	15,154	14,953	-	-
Health benefits	3,203	3,227	-	-
Interest	10,245	11,321	-	-
Other	18,990	16,089	-	-
Total current liabilities	121,987	130,325	26	97
Long-term liabilities				
Workers' compensation claims	6,950	7,034	-	-
Net pension liability	61,754	52,960	-	-
Post-retirement employee medical benefits	41,235	38,791	-	-
Long-term debt, revenue bonds and other	239,421	204,087	-	-
Long-term debt, general obligation bonds	340,646	342,546	-	-
Total long-term liabilities	690,006	645,418	-	-
Total liabilities	811,993	775,743	26	97
Deferred inflows of resources - pension	8,546	16,614	-	-
Net position				
Net investment in capital assets	231,998	175,504	-	-
Restricted - expendable	2,802	2,801	7,723	7,074
Restricted for minority interest	4,527	4,783	-	-
Unrestricted	98,731	137,072	338	397
Total net position	338,058	320,160	8,061	7,471
Total liabilities, deferred inflows of resources and net position	\$ 1,158,597	\$ 1,112,517	\$ 8,087	\$ 7,568

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, 2017 and 2016**

(in thousands)

	District		Foundation	
	2017	2016	2017	2016
<b>Operating revenues</b>				
Net patient service revenues	\$ 489,952	\$ 473,131	\$ -	\$ -
Other	14,093	9,527	-	-
Contributions	659	459	1,615	878
Contributed services	-	-	702	272
Total operating revenues	504,704	483,117	2,317	1,150
<b>Operating expenses</b>				
Salaries and wages	201,339	193,549	-	-
Employee benefits	73,330	69,380	-	-
Supplies	58,701	56,005	-	-
Professional fees	70,077	62,654	-	-
Purchased services	38,212	35,847	-	-
Depreciation	34,807	34,355	-	-
Insurance	1,264	1,586	-	-
Donations	-	-	672	463
Other operating expenses	14,415	12,644	1,276	799
Total operating expenses	492,145	466,020	1,948	1,262
Operating income (loss)	12,559	17,097	369	(112)
<b>Nonoperating revenues and expenses</b>				
Investment income	2,882	2,919	58	41
Net increase (decrease) in the fair value of investments	(2,755)	948	163	2
Interest expense, including amortization of premiums and discounts on bonds payable	(8,688)	(9,547)	-	-
Property tax revenue	16,148	15,789	-	-
Bond issuance costs	(1,271)	(1,680)	-	-
Other nonoperating income	631	540	-	-
Total nonoperating revenues and expenses	6,947	8,969	221	43
Increase (decrease) in net position before other changes	19,506	26,066	590	(69)
Minority interest - distributions to	(1,608)	(1,170)	-	-
Increase (decrease) in net position after other changes	17,898	24,896	590	(69)
<b>Total net position</b>				
Beginning of year	320,160	295,264	7,471	7,540
End of year	\$ 338,058	\$ 320,160	\$ 8,061	\$ 7,471

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



# Washington Township Health Care District

## Statements of Cash Flows

### June 30, 2017 and 2016

(in thousands)

	District		Foundation	
	2017	2016	2017	2016
<b>Cash flows from operating activities</b>				
Cash received from patient service activities	\$ 491,744	\$ 472,212	\$ -	\$ -
Other cash receipts	14,752	9,986	1,434	918
Cash payments to suppliers	(179,672)	(173,416)	(644)	(355)
Cash payments to employees and employee benefit programs	(281,945)	(262,504)	-	-
Net cash provided by operating activities	44,879	46,278	790	563
<b>Cash flows from noncapital financing activities</b>				
Donation from Foundation to District	659	459	(659)	(459)
Net assets distributed to minority shareholders in Washington Outpatient Surgery Center, LLC	(1,608)	(1,170)	-	-
Other donations	-	-	(13)	(4)
Net cash provided by (used in) noncapital financing activities	(949)	(711)	(672)	(463)
<b>Cash flows from capital and related financing activities</b>				
Purchases of capital assets	(181,478)	(93,347)	-	-
Principal paid on debt	(76,848)	(74,296)	-	-
Interest paid on debt	(27,514)	(23,190)	-	-
Proceeds from debt issuance, net of issuance costs	110,554	212,562	-	-
Proceeds from property taxes levied by the County	16,737	17,811	-	-
Net cash (used in) provided by capital and related financing activities	(158,549)	39,540	-	-
<b>Cash flows from investing activities</b>				
Purchases of investments	(324,405)	(742,237)	(58)	(36)
Sales of investments	442,466	673,013	500	196
Investment income	2,967	2,757	58	41
Other nonoperating income received	2,508	964	-	-
Net cash provided by (used in) investing activities	123,536	(65,503)	500	201
Net increase in cash and cash equivalents	8,917	19,604	618	301
<b>Cash and cash equivalents</b>				
Beginning of year	43,485	23,881	612	311
End of year	\$ 52,402	\$ 43,485	\$ 1,230	\$ 612
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income (loss)	\$ 12,559	\$ 17,097	\$ 369	\$ (112)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	34,807	34,355	-	-
Loss on disposal of fixed assets	36	-	-	-
Provision for doubtful accounts	37,084	41,817	-	-
Amortization of goodwill	673	672	-	-
Pension funding	(22,000)	(22,100)	-	-
Net change in deferred outflows and inflows	(14,239)	(2,174)	-	-
Donations	-	-	672	463
Changes in assets and liabilities				
Accounts receivables	(32,792)	(42,736)	(181)	40
Supplies, prepaid expenses, and other current assets	1,877	(3,954)	1	75
Other assets	806	(755)	-	-
Due to foundation	(469)	(180)	-	-
Due from/to third party payors	160	(1,965)	-	-
Accounts payable and accrued expenses	(3,602)	514	(71)	97
Payroll, vacation, and health accrued liabilities	(4,864)	7,546	-	-
Other liabilities	34,843	18,141	-	-
Net cash provided by operating activities	\$ 44,879	\$ 46,278	\$ 790	\$ 563
<b>Noncash transactions</b>				
Capitalized interest	\$ 16,691	\$ 14,706	\$ -	\$ -
Accounts payable and accrued expenses for property and equipment purchases	25,584	24,364	-	-
Contributed services	-	-	702	272
Contributed investments	-	-	36	3

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

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

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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, 2017 and 2016

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#### **Accounting Standards**

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

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the "economic resources measurement focus" and the accrual basis of accounting. In addition, these statements follow generally accepted accounting principles applicable to the health care industry, which are included in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, to the extent that these principles do not contradict GASB standards.

##### ***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 most significant estimates relate to patient accounts receivable allowances, amounts due to third-party payors, self-insurance liabilities and employee benefit costs. Actual results may differ from those estimates.

#### **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 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.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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**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**

Unconditional promises to give that are expected to be collected within one year are recorded 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. All assets with an original cost of \$500 or more are considered capital assets. Depreciation is provided over the useful life of each class of depreciable assets and is computed using the straight-line method. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred.

Depreciable lives by property classification are as follows:

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

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

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

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#### **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 2017 and 2016 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 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.

#### **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.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

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#### **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 asset. 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 Washington Outpatient Surgery Center 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 2017, the Washington Outpatient Surgery Center earned operating income of approximately \$2.7 million. The District distributed a portion of the minority interest's share of 2016 earnings in fiscal year 2017.

##### *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.

##### *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, 2017 and 2016.

#### **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.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

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#### **Concentrations of Credit Risk**

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

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

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

The District's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the District's patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Reimbursements from the Medicare program accounted for approximately 25 percent and 23 percent of the District's net patient service revenues for the fiscal years ended June 30, 2017 and 2016, respectively. Medicare (18.7 percent) and Blue Cross Prudent Buyer (11.1 percent) are the only payors representing more than 10 percent of the District's net patient accounts receivable as of June 30, 2017. 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 75 donor pledges, with the largest individual pledge representing approximately 52.2 percent of the total, as of June 30, 2017. The Foundation had 90 donor pledges, with the largest individual pledge representing approximately 79.3 percent of the total, as of June 30, 2016.

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

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

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#### **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 \$6.9 million in fiscal year 2017 and approximately \$1.6 million in fiscal year 2016.

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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenues. The District subsidizes the cost of treating patients who are on governmental assistance, where reimbursement is below cost.

#### **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 \$0.6 million and \$1.4 million in fiscal years 2017 and 2016, respectively. Amounts recorded for the PRIME program were \$4.8 million and \$1.0 million in fiscal years 2017 and 2016, 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 2017 and 2016.

#### **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.



# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

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#### **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.

#### **New Accounting Pronouncements**

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

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 (FY2018 for the District), 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. Preliminary information indicates that the impact of adoption of this standard for the District's fiscal year ending June 30, 2018, will be an increase in the estimated liability for postemployment medical benefits of approximately \$20 million and a corresponding decrease in unrestricted net position.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for financial statements for periods beginning after December 15, 2015 (FY2017 for the District), with earlier adoption encouraged. The objective of this Statement is to provide financial statement users with more consistent and comprehensive information about the nature and magnitude of tax abatements. Since the District does not have the authority to assess nor to abate taxes, and the County cannot abate tax amounts due to the District, this guidance is not applicable for the District.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units, An Amendment of GASB Statement No. 14* effective for financial statements for periods beginning after June 15, 2016, with earlier adoption encouraged. Since the District is not the sole corporate member of the Foundation, this guidance is not applicable for the District, and the Foundation will continue to be discretely presented in the District's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73* effective for financial statements for periods beginning after June 15, 2016 (FY2017 for the District), with earlier adoption encouraged. Adoption of this standard in the current fiscal year resulted in minor changes to descriptions associated with certain pension-related disclosures, but did not result in any changes to reported amounts.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for financial statements for periods beginning after June 15, 2018, with earlier adoption encouraged. 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 (FY2020 for the District), with earlier adoption encouraged. Management is currently evaluating the effect of this standard on the financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for financial statements for periods beginning after June 15, 2017 (FY2018 for the District), with earlier adoption encouraged. Management is currently evaluating the effect of this standard on the financial statements.

## Washington Township Health Care District

### Notes to Financial Statements

#### June 30, 2017 and 2016

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In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for financial statements for periods beginning after June 15, 2017 (FY2018 for the District), with earlier adoption encouraged. 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 (FY2021 for the District), with earlier adoption encouraged. Management is currently evaluating the effect of this standard on the financial statements.

#### **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 (FY2020 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. Management is currently evaluating the effect of this standard on the financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements-Going Concern*, effective for periods beginning after December 15, 2015 (FY2017 for the Foundation). ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Adoption of this standard in the current fiscal year did not result in any additional disclosures or any changes to reported amounts.

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 (FY2019 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 (FY2019 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 (FY2019 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.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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**2. Net Patient Services Revenues**

Net patient service revenues consist of the following:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Gross patient charges</b>		
Routine inpatient services	\$ 407,469	\$ 391,159
Ancillary inpatient services	1,135,060	1,102,291
Outpatient services	<u>645,145</u>	<u>624,851</u>
	2,187,674	2,118,301
Less: Charity care	<u>(3,271)</u>	<u>(5,221)</u>
Gross patient service revenues	<u>2,184,403</u>	<u>2,113,080</u>
<b>Deductions from gross patient service revenues</b>		
Contractual allowances for statutory and negotiated rates	1,657,367	1,598,132
Provision for doubtful accounts	<u>37,084</u>	<u>41,817</u>
	<u>1,694,451</u>	<u>1,639,949</u>
Net patient service revenues	<u>\$ 489,952</u>	<u>\$ 473,131</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

#### June 30, 2017 and 2016

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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" and a "Hospital Fee Program", which are imposed on certain California hospitals. The original effective date of the Hospital Fee Program 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 current Hospital Fee Program relates to the period from January 1, 2014 through December 31, 2016. 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 Quality Assurance Fee; however, the District receives supplemental payments under the Hospital Fee Program. For fiscal years 2017 and 2016, respectively, the District recognized \$1.0 million and \$2.2 million. Hospital Fee 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 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 2017 and 2016, the District recognized amounts under the IGT Program of \$1.5 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

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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federal Medicaid funds. For both fiscal year 2017 and fiscal year 2016, the District recorded net patient service revenues of \$0.5 million related to these payments.

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

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Medicare and Medicare HMO	\$ 1,121,727	\$ 1,064,287
Medi-Cal and Medi-Cal HMO	431,973	409,574
Commercial PPO, HMO and others	592,392	598,867
Private pay	<u>41,582</u>	<u>45,573</u>
	<u>\$ 2,187,674</u>	<u>\$ 2,118,301</u>

**3. Charity Care**

The District maintains records to identify and monitor the level of direct charity care it provides. For fiscal year 2017 and 2016, net patient service revenues exclude charges foregone for charity care services and supplies of approximately \$3.3 million and \$5.2 million, respectively.

**4. Contributions Receivable**

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

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Critical Care Pavilion	\$ 1,294	\$ 1,076
Center for Joint Replacement	6	27
Other	<u>137</u>	<u>158</u>
Contributions receivable before unamortized discount and allowance for uncollectibles	1,437	1,261
Less:		
Allowance for uncollectibles	(43)	(57)
Discount on multi-year contributions	<u>(70)</u>	<u>(61)</u>
Net contributions receivable	<u>\$ 1,324</u>	<u>\$ 1,143</u>
<b>Amounts due in</b>		
Less than 1 year	\$ 75	\$ 158
1 to 3 years	<u>1,249</u>	<u>985</u>
	<u>\$ 1,324</u>	<u>\$ 1,143</u>

The value of contributions receivable represents the Foundation's expected future cash flows from each pledge. For fiscal years 2017 and 2016, the Foundation used a discount rate of 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.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
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**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**

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

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Critical Care Pavilion	\$ 5,415	\$ 4,613
Health-related services	702	701
Emergency room and critical care	276	294
Trauma rooms	264	264
Education and professional recognition	252	132
Pathways hospice	235	394
Community Mammography	223	198
Surgical services	181	111
Special care nursery	157	162
Other activities	17	20
Center for Joint Replacement	1	185
	<u>\$ 7,723</u>	<u>\$ 7,074</u>

**6. Related-Party Transactions**

The District held \$3,807,000 and \$4,276,000 as of June 30, 2017 and 2016, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated \$659,000 and \$459,000 to the District for fiscal years 2017 and 2016, 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.
- 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.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

- 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 Levelled – 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 investment assets, measured on a recurring basis at June 30, 2017, is reflected in the following table:

(in thousands)

	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 Levelled)	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 & 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					
FoundationLocal 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>

The fair value of the District's investment assets, measured on a recurring basis at June 30, 2016, is reflected in the following table:

(in thousands)

	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 Levelled)	Balance at June 30, 2016
<b>District</b>					
Short-term investments					
Money market and mutual funds	\$ -	\$ -	\$ -	\$ 34,796	\$ 34,796
Long-term investment and restricted funds					
U.S. Treasuries	-	65,468	-	-	65,468
U.S. Agencies	-	35,249	-	-	35,249
Corporate & Municipal Bonds	-	52,050	-	-	52,050
Local Agency Investment Fund (LAIF)	-	232,415	-	-	232,415
Money market and mutual funds	-	-	-	2,204	2,204
Total Investments - District	<u>\$ -</u>	<u>\$ 385,182</u>	<u>\$ -</u>	<u>\$ 37,000</u>	<u>\$ 422,182</u>
<b>Foundation</b>					
Short-term investments					
Money market funds and certificates of deposit	\$ -	\$ -	\$ -	\$ 425	\$ 425
Domestic equity funds	-	1,007	-	-	1,007
Short-term investments held by District on behalf of					
FoundationLocal Agency Investment Fund (LAIF)	-	4,276	-	-	4,276
Long-term investment and restricted funds:					
Certificates of deposit	-	-	-	104	104
Total Investments - Foundation	<u>\$ -</u>	<u>\$ 5,283</u>	<u>\$ -</u>	<u>\$ 529</u>	<u>\$ 5,812</u>

**Washington Township Health Care District**  
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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 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, 2017 and as of June 30, 2016, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

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

**District**

As of June 30, 2017 and 2016, investment and restricted funds, at fair value, have been set aside as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Board-designated funds</b>		
Funded depreciation	\$ 149,368	\$ 197,863
Workers' compensation fund	11,898	11,998
Funds held by trustee under bond indenture	137,299	209,520
Restricted funds	<u>2,801</u>	<u>2,801</u>
Total funds	301,366	422,182
Short-term investments – required for current liabilities	<u>(33,797)</u>	<u>(34,796)</u>
Total long-term investment and restricted funds	<u>\$ 267,569</u>	<u>\$ 387,386</u>



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

	<b>Maximum Average Maturity</b>	<b>Maximum Percentage</b>	<b>Maximum Investment</b>
<b>Authorized investment type</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
LAIF (State Pool Demand Deposits)	N/A	As permitted by law	\$ 65,000,000 *

\* no maximum for investments of bond proceeds

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

(in thousands)

	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>

As of June 30, 2016 the District had the following investments with maturities as follows:

(in thousands)

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
<b>Investment type</b>					
U.S. Treasuries	\$ 65,468	\$ 5,126	\$ 57,427	\$ 2,915	\$ -
U.S. Government Agencies	35,249	1,563	24,615	3,657	5,414
Corporate bonds	52,050	7,260	44,464	326	-
LAIF (State Pool Demand Deposits)	232,415	232,415	-	-	-
Money market and mutual funds	37,000	37,000	-	-	-
Total investments	<u>\$ 422,182</u>	<u>\$ 283,364</u>	<u>\$ 126,506</u>	<u>\$ 6,898</u>	<u>\$ 5,414</u>

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

**Washington Township Health Care District**  
**Notes to Financial Statements**  
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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, 2017 are rated as follows:

<i>(in thousands)</i>	<b>Fair Value</b>	<b>Ratings</b>
<b>Investment type</b>		
U.S. Treasuries	\$ 52,345	Not rated
U.S. Government Agencies	33,398	Not rated
Corporate bonds	50,879	See below
Local Agency Investment Fund	128,775	Not rated
Money market and mutual funds	35,969	Not rated
	<u>\$ 301,366</u>	

<i>(in thousands)</i>	<b>Amount</b>
<b>Corporate bonds rating</b>	
AAA	\$ 4,726
AA+	2,907
AA	5,689
AA-	4,560
A+	6,490
A	15,289
A-	11,218
	<u>\$ 50,879</u>

All of the District's investments, including assets held by trustees, are Category 1 investments, which are defined by GASB Statement No. 31 as investments that are insured or registered and are held by the District, or its agent, in the District's name. Investments in any one issuer representing five percent or more of the District's total investments are as follows: U.S. Treasury obligations, Local Agency Investment Fund, and BlackRock T-Fund Money Market Institutional #60.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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**Foundation**

Investments as of June 30, 2017 and 2016, at fair value are summarized below:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Money market and certificates of deposit	\$ 533	\$ 529
Equity mutual fund	1,193	1,007
Local Agency Investment Fund held by District on behalf of Foundation	<u>3,807</u>	<u>4,276</u>
	<u>\$ 5,533</u>	<u>\$ 5,812</u>

**9. Capital Assets**

Capital assets activity for fiscal year 2017 consisted of the following:

<i>(in thousands)</i>	<b>Beginning Balance June 30, 2016</b>	<b>Increases</b>	<b>Decreases</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	<u>202,421</u>	<u>137,095</u>	<u>(31,302)</u>	<u>308,214</u>
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	<u>349,786</u>	<u>14,690</u>	<u>(970)</u>	<u>363,506</u>
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	<u>(220,877)</u>	<u>(22,767)</u>	<u>934</u>	<u>(242,710)</u>
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.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
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Capital assets activity for fiscal year 2016 consisted of the following:

<i>(in thousands)</i>	<b>Beginning Balance June 30, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance June 30, 2016</b>
<b>Capital assets, not being depreciated</b>				
Land	\$ 10,482	\$ -	\$ -	\$ 10,482
Construction in progress	93,782	119,560	(10,921)	202,421
Total capital assets not being depreciated	<u>104,264</u>	<u>119,560</u>	<u>(10,921)</u>	<u>212,903</u>
<b>Capital assets being depreciated</b>				
Land improvements	11,395	-	-	11,395
Buildings	326,066	129	(435)	325,760
Fixed and moveable equipment	334,732	14,904	150	349,786
Total capital assets being depreciated	<u>672,193</u>	<u>15,033</u>	<u>(285)</u>	<u>686,941</u>
<b>Less: Accumulated depreciation</b>				
Land improvements	(7,329)	(388)	-	(7,717)
Buildings	(141,291)	(12,198)	-	(153,489)
Fixed and movable equipment	(198,977)	(22,185)	285	(220,877)
Total accumulated depreciation	<u>(347,597)</u>	<u>(34,771)</u>	<u>285</u>	<u>(382,083)</u>
Total capital assets being depreciated, net	<u>324,596</u>	<u>(19,738)</u>	<u>-</u>	<u>304,858</u>
Total capital assets, net	<u>\$ 428,860</u>	<u>\$ 99,822</u>	<u>\$ (10,921)</u>	<u>\$ 517,761</u>

At June 30, 2016, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$190 million.

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

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Change in accumulated depreciation</b>		
Operating depreciation expense	\$ 34,807	\$ 34,355
Nonoperating depreciation expense	1,913	416
Disposal of fixed assets	(935)	(285)
Total increase in accumulated depreciation	<u>\$ 35,785</u>	<u>\$ 34,486</u>

**10. Short-Term Debt**

During the fiscal years 2017 and 2016, Washington Hospital Outpatient Surgery Center had a short-term \$1.0 million revolving line of credit available. Upon expiration in September 2017, the line of credit was renewed through September 2019. There have been no draws under the line of credit since its inception.

On March 31, 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 and emergency and critical care services pavilion. No draws have been made under the Standby LC which expires March 2, 2018.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

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#### 11. Long-Term Debt

The District issued general obligation bonds in December 2006 for the purpose of providing funds to pay costs related to the construction of a new Central Utility Plant and other major construction projects. The repayment of the general obligation bonds will be funded through property tax assessments to residents of the District. In June 2016, the District issued general obligation (current) refunding bonds (see below discussion of 2016 General Obligation Bonds), to take advantage of favorable market interest rates and to refinance the remaining outstanding 2006 general obligation 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 August 1, 2016. This transaction meets the criteria for classification as an “in-substance” defeasance as of June 30, 2016, 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, 2016.

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 the Trustee (US Bank National Association or “US Bank N.A.”), 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 will also be used for the purchase of additional medical equipment and expansion of other service areas around the Hospital campus. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital’s revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

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

## **Washington Township Health Care District**

### **Notes to Financial Statements**

#### **June 30, 2017 and 2016**

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the construction of a new garage and a Critical Care 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 previous revenue bonds that were originally issued for the purpose of providing funds to pay costs associated with the acquisition, construction and renovation of Hospital facilities. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of 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 a Critical Care 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.

The District is also required to meet certain covenants, the most restrictive of which is related to debt service coverage. The District has agreed to maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. The District was in compliance with these covenants as of June 30, 2017 and 2016, maintaining debt service coverage ratios of 3.8 to 1.0 and 4.4 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 have been capitalized and are included in current maturities of long-term debt and long-term debt, as appropriate.

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In fiscal years 2015 and 2017, WOSC entered into multi-year lease agreements for surgical equipment. Amounts related to these obligations have been capitalized and 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 an additional surgery center location 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. Monthly payments of principal and interest are required.

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2017 is as follows:

(in thousands)

	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 General Obligation Refunding Bonds Payable	34,681	-	(515)	-	34,166	1,085
2015 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 2015 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

## Notes to Financial Statements

### June 30, 2017 and 2016

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2016 is as follows:

(in thousands)

	Beginning Balance, June 30, 2015	Additions	Amortization /Other	Repayments	Ending Balance, June 30, 2016	Due Within One Year
<b>Bonds payable</b>						
2016 General Obligation Refunding Bonds, principal and interest (at 2.00% to 5.00%) payable semiannually	\$ -	\$ 30,725	\$ -	\$ -	\$ 30,725	\$ -
Plus: Issuance premiums	-	3,829	127	-	3,956	-
Total 2016 General Obligation Refunding Bonds Payable	-	34,554	127	-	34,681	-
2015 Revenue Refunding Bonds, principal and interest (at 3.25% to 5.00%) payable semiannually	-	30,290	-	-	30,290	1,510
Plus: Issuance premiums	-	2,271	(424)	-	1,847	-
Total 2015 Revenue Refunding Bonds Payable	-	32,561	(424)	-	32,137	1,510
2015B General Obligation Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	-	145,500	-	-	145,500	-
Plus: Issuance premiums	-	1,635	(31)	-	1,604	-
Total 2015B General Obligation Bonds Payable	-	147,135	(31)	-	147,104	-
2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually	105,000	-	-	-	105,000	-
Plus: Issuance premiums	2,915	-	(192)	-	2,723	-
Total 2013B Revenue Bonds Payable	107,915	-	(192)	-	107,723	-
2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually	40,500	-	-	-	40,500	-
Plus: Issuance premiums	796	-	(44)	-	752	-
Total 2013A General Obligation Bonds Payable	41,296	-	(44)	-	41,252	-
2010 Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually	57,245	-	-	(1,270)	55,975	1,330
Less: Issuance discounts	(901)	-	3	-	(898)	-
Total 2010 Revenue Bonds Payable	56,344	-	3	(1,270)	55,077	1,330
2009 Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually	51,510	-	-	(975)	50,535	1,025
Less: Issuance discounts	(735)	-	51	-	(684)	-
Total 2009 Revenue Bonds Payable	50,775	-	51	(975)	49,851	1,025
2009 General Obligation Bonds, principal and interest (at 4.50% to 5.75%) payable semiannually	11,825	-	-	(10)	11,815	15
Less: Issuance discounts	(15)	-	1	-	(14)	-
Total 2009 General Obligation Bonds Payable	11,810	-	1	(10)	11,801	15
2007 Revenue Bonds, principal and interest (at 5.00%) payable semiannually	73,690	-	-	(1,025)	72,665	1,070
Less: Issuance discounts	(948)	-	97	-	(851)	-
Total 2007 Revenue Bonds Payable	72,742	-	97	(1,025)	71,814	1,070
2006 General Obligation Bonds Called as of August 1, 2016; refinanced by 2016 Refunding GO Bonds, above	37,250	-	-	(37,250)	-	-
Plus: Issuance premiums	154	-	(154)	-	-	-
Total 2006 General Obligation Bonds Payable	37,404	-	(154)	(37,250)	-	-
1999 Revenue Bonds, called as of December 10, 2015; refinanced by 2015 Refunding Revenue Bonds, above	33,580	-	-	(33,580)	-	-
Less: Issuance discounts	(180)	-	180	-	-	-
Total 1999 Revenue Bonds Payable	33,400	-	180	(33,580)	-	-
<b>Loans payable</b>						
2013 ADP Financing principal and interest (at 5.32%) payable monthly	282	-	-	(101)	181	106
Total 2013 ADP Loan Payable	282	-	-	(101)	181	106
<b>Capital lease obligation</b>						
2015 WOSC Stryker Capital Lease principal and interest (at 3.49%) payable monthly	241	-	-	(85)	156	88
Total 2015 WOSC capital lease obligation	241	-	-	(85)	156	88
Total long-term debt payable	\$ 412,209	\$ 214,250	\$ (386)	\$ (74,296)	\$ 551,777	\$ 5,144

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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

<i>(in thousands)</i>	Original Issue Amount	Maturity Date	Effective Interest Rate	
			2017	2016
<b>Bond issue</b>				
2017B Revenue Refunding Bonds	\$ 66,690	7/1/2037	N/A	N/A
2017A Revenue Bonds	37,655	7/1/2047	3.79%	N/A
2016 General Obligation Bonds	30,725	8/1/2036	1.97%	2.59%
2015 Revenue Bonds	30,290	7/1/2029	2.93%	2.87%
2015 General Obligation Bonds	145,500	8/1/2045	3.93%	3.90%
2013B General Obligation Bonds	105,000	8/1/2043	4.86%	4.86%
2013A General Obligation Bonds	40,500	8/1/2043	4.86%	4.86%
2010 Revenue Bonds	60,725	7/1/2038	5.43%	5.38%
2009 Revenue Bonds	55,000	7/1/2039	6.25%	5.74%
2009 General Obligation Bonds	25,000	8/1/2039	5.70%	6.23%

The long-term debt payment requirements as of June 30, 2017, excluding amortization of discounts and premiums on bonds payable, are as follows:

<i>(in thousands)</i>	Total Long-Term Debt	
	Principal	Interest
<b>June 30,</b>		
2018	\$ 5,628	\$ 24,938
2019	7,467	26,580
2020	8,829	26,200
2021	9,712	25,760
2022	9,969	25,284
2023 - 2027	51,135	118,921
2028 - 2032	72,905	105,028
2033 - 2037	120,590	82,824
2038 - 2042	138,405	49,202
2043 - 2047	147,570	13,554
	<u>\$ 572,210</u>	<u>\$ 498,291</u>

Components of interest expense include the following:

<i>(in thousands)</i>	2017	2016
Total interest cost	\$ 25,379	\$ 24,253
Capitalized interest expense	(16,691)	(14,706)
Net interest expense	<u>8,688</u>	<u>9,547</u>
Capitalized investment income	\$ 1,036	\$ 560

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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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>2017</b>	<b>2016</b>
Active	1,343	1,346
Vested terminated	706	677
Retirees and beneficiaries	618	817
Total participants	<u>2,667</u>	<u>2,840</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>2017</b>	<b>2016</b>
<b>Pension cost</b>		
Service cost	\$ 6,494	\$ 5,669
Employee contributions	(732)	(373)
Interest	24,263	23,657
Expected return on plan assets	(19,795)	(18,674)
Administrative expenses	216	64
Recognition of deferred amounts	5,983	1,103
Total pension cost	<u>16,429</u>	<u>11,446</u>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Continued		
<b>Deferred inflows of resources</b>		
Remaining balance at beginning of year		
Established July 1, 2012		
Difference between expected and actual experience	(387)	(1,583)
Difference between expected and actual earnings on plan investments	(1,135)	(2,271)
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	(4,896)	(7,344)
Established July 1, 2015		
Difference between expected and actual experience	<u>(10,196)</u>	<u>(13,657)</u>
Deferred inflows of resources at the beginning of the year	<u>(16,614)</u>	<u>(24,855)</u>
Amount recognized in current year pension cost		
Established July 1, 2012		
Difference between expected and actual experience	(387)	(1,196)
Difference between expected and actual earnings on plan investments	(1,135)	(1,136)
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	<u>(4,098)</u>	<u>(3,461)</u>
Deferred inflows of resources amortized during the year	<u>(8,068)</u>	<u>(8,241)</u>
Deferred inflows of resources at end of year	<u>\$ (8,546)</u>	<u>\$ (16,614)</u>
<b>Deferred outflows of resources</b>		
Remaining balance at beginning of year		
Established July 1, 2012		
Change in assumptions	\$ 160	\$ 657
Established July 1, 2013		
Difference between expected and actual experience	1,601	2,532
Change in assumptions	132	209
Established July 1, 2014		
Difference between expected and actual experience	320	449
Difference between expected and actual earnings on plan investments	3,255	4,340
Change in assumptions	8,046	11,284
Established July 1, 2015		
Difference between expected and actual earnings on plan investments	13,547	16,934
Established July 1, 2016		
Difference between expected and actual earnings on plan investments	11,978	-
Difference between expected and actual experience	<u>8,244</u>	<u>-</u>
Deferred outflows of resources at the beginning of the year	<u>47,283</u>	<u>36,405</u>
Amount recognized in current year pension cost		
Established July 1, 2012		
Change in assumptions	160	497
Established July 1, 2013		
Difference between expected and actual experience	931	931
Change in assumptions	77	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	4,086	3,387
Established July 1, 2016		
Difference between expected and actual earnings on plan investments	2,396	-
Difference between expected and actual experience	<u>1,949</u>	<u>-</u>
Deferred outflows of resources amortized during the year	<u>14,051</u>	<u>9,344</u>
Deferred inflows of resources at end of year	<u>\$ 33,232</u>	<u>\$ 27,061</u>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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**Amounts of deferred inflows to be recognized in pension expense cost for future years**

2017	\$ -	\$ (7,431)
2018	(5,582)	(5,909)
2019	(2,964)	(3,274)
Thereafter	-	-
	<u>\$ (8,546)</u>	<u>\$ (16,614)</u>

**Amounts of deferred outflows to be recognized in pension expense cost for future years**

2017	\$ -	\$ 9,008
2018	12,676	8,564
2019	10,214	6,103
2020	7,498	3,386
2021	2,844	-
Thereafter	-	-
	<u>\$ 33,232</u>	<u>\$ 27,061</u>

The following table summarizes changes in net pension liability from July 1, 2015 to June 30, 2017:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Total pension liability</b>		
Service cost	\$ 6,494	\$ 5,669
Interest	24,263	23,657
Difference between expected and actual experience	8,244	(13,656)
Benefit payments	<u>(30,410)</u>	<u>(13,760)</u>
Net change in total pension liability	8,591	1,910
Total pension liability (beginning of year)	<u>325,615</u>	<u>323,705</u>
Total pension liability (end of year)	<u>334,206</u>	<u>325,615</u>
<b>Plan fiduciary net position</b>		
Employer contributions	22,000	22,100
Employee contributions	732	373
Net investment income	7,817	6,740
Benefit payments	(30,410)	(13,760)
Administrative expense	(216)	(64)
Other	<u>(126)</u>	<u>1</u>
Net change in fiduciary net position	(203)	15,390
Fiduciary net position (beginning of year)	<u>272,655</u>	<u>257,265</u>
Fiduciary net position (end of year)	<u>272,452</u>	<u>272,655</u>
Net pension liability (end of year)	<u>\$ 61,754</u>	<u>\$ 52,960</u>
Fiduciary net position as percent of liability	<u>81.5 %</u>	<u>83.7 %</u>
Covered payroll	<u>146,438</u>	<u>142,319</u>
Net pension liability as percent of covered payroll	<u>42.2 %</u>	<u>37.2 %</u>

# Washington Township Health Care District

## Notes to Financial Statements

### June 30, 2017 and 2016

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2016 and June 30, 2017:

Valuation date	January 1, 2016, January 1, 2017
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Actuarial assumptions (including 3% inflation)	
Discount rate	7.50 %
Projected salary increases	3.00 %
Valuation date	January 1, 2016
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
Valuation date	January 1, 2017
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, 2015 to changes in the discount rate, with no other changes -	
1 percent decrease (6.5%)	\$ 106,611,000
Current discount rate (7.5%)	66,440,000
1 percent increase (8.5%)	32,945,000
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
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

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>

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

The fair value of the District's pension investments measured as of January 1, 2016, and used for the purpose of the June 30, 2016 valuation, is reflected in the following table:

*(in thousands)*

	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	\$ -	\$ -	\$ -	\$ -	\$ 98,009	\$ 98,009
Fixed income securities	-	86,168	-	-	-	86,168
Domestic equity fund	-	38,136	-	-	-	38,136
International equity fund	-	34,453	-	-	-	34,453
Private equity fund	-	-	-	15,889	-	15,889
Total pension assets	\$ -	\$ 158,757	\$ -	\$ 15,889	\$ 98,009	\$ 272,655

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 2017 and 2016 were as follows:

*(in thousands)*

Contribution Year	Amount	Employee Deductions Being Matched
2017	\$ 1,878	Calendar year 2016
2016	1,786	Calendar year 2015

**Defined Benefit Post-Employment Medical Plan**

Other post-employment benefits (OPEB) are provided by the District through a defined benefit post-employment medical plan, the Washington Township Health Care District Postretirement Medical Plan or the OPEB Plan. The OPEB Plan provides for salaried and non-salaried employees, as approved by the Board of Directors of the District. Individuals eligible for the OPEB Plan are those employees who have been continuously in a benefitted status for the five years prior to their retirement date, and who concurrently elect retirement and the receipt of pension plan benefits after they reach age 55 with a minimum of fifteen years of service.

**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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Eligible retirees who are less than age 65, with fifteen years to twenty years of service, are eligible to receive a monthly reimbursement for medical expenses up to a stipulated amount (Retiree Medical Reimbursement Plan). Eligible employees 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 the payment to the retiree of the cost of Medicare Part B insurance premiums. 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.

OPEB Plan benefits are funded entirely by the District on a pay-as-you-go basis. For fiscal years 2017 and 2016, the District contributed \$1.4 and \$1.5 million, respectively, to fund benefits paid in those years.

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

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

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Annual required contribution	\$ 5,641	\$ 5,451
Interest on net OPEB obligation	1,843	1,735
Adjustment to annual required contribution	<u>(3,674)</u>	<u>(3,460)</u>
Annual OPEB cost	3,810	3,726
Contributions made	<u>1,366</u>	<u>1,458</u>
Increase in net OPEB Obligation	2,444	2,268
<b>Net OPEB obligation</b>		
Beginning of year	<u>38,791</u>	<u>36,523</u>
End of year	<u>41,235</u>	<u>38,791</u>



**Washington Township Health Care District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for fiscal year 2017 and the two preceding years were as follows:

<i>(in thousands)</i>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
<b>Fiscal Year Ended</b>			
2015	\$ 3,438	40.17 %	\$ 36,523
2016	3,726	39.13 %	38,791
2017	3,810	35.85 %	41,235

As of June 30, 2017, the most recent actuarial valuation date, the OPEB Plan was not funded. The actuarial accrued liability for benefits was \$43.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$43.9 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was \$129.9 million, and the ratio of the UAAL to the covered payroll was 33.8 percent.

In the June 30, 2017 and June 30, 2016 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions for both years include an initial annual healthcare cost trend rate of 7 percent, reduced by decrements to an ultimate rate of 5 percent by the year 2020 and 2019, respectively. For each of the years, a discount rate of 4.75 percent was assumed in the calculation and the UAAL is being amortized as a level percentage over 15 years on an open basis.

In calculating the actuarially accrued liability for fiscal years 2016 and 2017, the District used the same updated mortality tables that were used for the defined benefit retirement plan.

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

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

**Washington Township Health Care District**  
**Notes to Financial Statements**  
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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	-
Fiduciary liability	5,000,000	25,000
Broadcasters liability	5,000,000	1,000
<b>Construction-related</b>		
Owner Controlled Insurance Program - general liability	2,000,000	500,000
Owner Controlled Insurance Program - workers' compensation (primary)	Statutory	500,000
Owner Controlled Insurance Program - workers' compensation (excess)	100,000,000	-
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

**Washington Township Health Care District**  
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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.

**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, 2017 and 2016, the approximate liability for unpaid compensated absences was \$15.2 million and \$15.0 million, respectively.

**15. Commitments and Contingencies**

**Lease Commitments**

DEVCO has operating leases for medical clinic facilities. Rental expense under these leases for fiscal years 2017 and 2016 was \$3.1 million and \$3.0 million, respectively.

Future minimum rental commitments for fiscal years ended subsequent to June 30, 2017 are as follows:

*(in thousands)*

2018	\$ 2,842
2019	2,554
2020	1,563
2021	693
2022	628
Thereafter	145
	<u>\$ 8,425</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.

**Washington Township Health Care District**  
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**Regulatory Environment**

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

**16. Subsequent Events**

The District has evaluated the financial statements for subsequent events through November 15, 2017, 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 Post-Employment  
Benefit Information (unaudited)**

## 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 %		8.55 %
Core Fixed Income	20 %		4.95 %
Opportunistic Credit	15 %		7.15 %
Real Assets	5 %		6.50 %
<b>Total</b>	<b>100 %</b>		

### 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>					
2008	\$ 9,407	\$ 9,500	\$ 93	\$ 100,581	9.45 %
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 %
	<b>\$ 162,332</b>	<b>\$ 218,826</b>	<b>\$ 56,494</b>		

## 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>
	<u>\$ 84,800,000</u>

The following table summarizes changes in net pension liability from July 1, 2012 to June 30, 2017:

<i>(in thousands)</i>	2017	2016	2015	2014	2013
<b>Total pension liability</b>					
Service cost	\$ 6,494	\$ 5,669	\$ 5,434	\$ 5,456	\$ 6,580
Interest	24,263	23,657	21,585	20,223	19,283
Difference between expected and actual experience	8,244	(13,656)	578	4,395	(5,173)
Change in assumptions	-	-	14,522	362	2,148
Benefit payments	<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	8,591	1,910	28,357	18,953	13,540
Total pension liability (beginning of year)	<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>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	22,000	22,100	36,200	115,526	-
Employee contributions	732	373	139	-	-
Net investment income	7,817	6,740	10,805	19,342	12,619
Benefit payments	(30,410)	(13,760)	(13,762)	(11,483)	(9,298)
Administrative expense	(216)	(64)	(65)	(62)	(69)
Other	<u>(126)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fiduciary net position	(203)	15,390	33,317	123,323	3,252
Plan fiduciary net position (beginning of year)	<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>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>\$ 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	81.5 %	83.7 %	79.5 % <sup>1</sup>	75.8 % <sup>1</sup>	36.4 %
Covered payroll	146,438	142,319	136,999	144,445	145,324
Net pension liability as percent of covered payroll	<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	81.5 %	83.7 %	81.0 %	82.1 %	36.4 %
<sup>2</sup> Net pension liability as percent of covered payroll including deferred outflows of resources	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

The following table summarizes the number of total plan participants:

	July 1, 2016	July 1, 2015
Active employees	1,294	1,254
Retirees receiving pre-65 \$440 reimbursement	8	9
Retirees receiving pre-65 COBRA benefits	61	49
	375	360
Retirees eligible for Part-B subsidy only	-	12
Retirees receiving Part-D subsidy only	1	1
Total plan participants	<u>1,739</u>	<u>1,685</u>
Retirees also receiving Part-D subsidy benefit	45	108
Retirees also eligible for Part-D	33	34

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

(in thousands)

Valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Projected Unit Credit (b)	Unfunded Actuarial Accrued Liability UAAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Assets in Excess/(Shortfall) AAL as a Percentage of Covered Payroll ((a – b)/c)
July 1, 2014	\$ -	\$ 38,486	\$ (38,486)	0.0 %	\$ 143,602	(26.8) %
July 1, 2015	-	41,057	(41,057)	0.0 %	136,917	(30.0) %
July 1, 2016	-	43,941	(43,941)	0.0 %	129,940	(33.8) %

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

(in thousands)

Fiscal year	Annual Required Contribution	Annual Contribution	Percentage Contributed
July 1, 2014 - June 30, 2015	\$ 5,066	\$ 1,381	27.3 %
July 1, 2015 - June 30, 2016	5,451	1,458	26.7 %
July 1, 2016 - June 30, 2017	5,641	1,366	24.2 %



## Washington Township Health Care District Required Supplementary Pension and Post-Employment Benefit Information (unaudited)

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

(in thousands)

	Beginning of Year Net Benefit Obligation (a)	Recommended Contribution (b)	Actual Contribution (c)	Annual OPEB Cost (d)	Increase in Net Benefit Obligation (d-c)	End of Year Net Benefit Obligation ((a)+(d-c))
<b>Fiscal year</b>						
July 1, 2014 - June 30, 2015	\$ 34,466	\$ 5,066	\$ 1,381	\$ 3,438	\$ 2,057	\$ 36,523
July 1, 2015 - June 30, 2016	36,523	5,451	1,458	3,726	2,268	38,791
July 1, 2016 - June 30, 2017	38,791	5,641	1,366	3,810	2,444	41,235

The following table summarizes the actuarial assumptions used to determine the Defined Benefit Post-Employment Medical Plan liabilities as of June 30, 2017:

Valuation date	07/01/2016
Measurement date	07/01/2016
Actuarial cost method	Projected unit credit
Amortizing method	Level dollar
Remaining amortization period	15 year open
Asset valuation method	Market Value
Actuarial assumptions	
Discount rate	4.75 %
Current trend rate	7.00 %
Ultimate trend	5.00 %
Year of ultimate trend rate	2020