Washington Township Health Care District

Financial Statements
June 30, 2015 and 2014

Washington Township Health Care District
Index
June 30, 2015 and 2014

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Independent Auditor's Report

To Board of Directors
Washington Township Health Care District

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit of the Washington Township Health Care District (the "District"), which comprise the individual statements of net position as of June 30, 2015 and June 30, 2014, and the related individual 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.

Auditor's Responsibility

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit Washington Township Health Care District at June 30, 2015 and June 30, 2014, and the respective changes in financial position and cash flows 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 2 through 18 and the required supplemental information on page 55 to 58 are required by accounting principles generally accepted in the United States of America to supplement the financial statements. Such information, although not a part of the 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.

PricewaterhouseCoopers LLP

October 15, 2015

Overview of the Financial Statements

The annual report consists of Management's Discussion and Analysis, financial statements and notes to those statements. These statements are organized to present the Washington Township Health Care District (the District) and Washington Hospital Healthcare Foundation (the Foundation) as a financial whole, an entire operating entity. Readers should also review the accompanying notes to the financial statements 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 2015

- The District generated improved operating results for the twelve months ended June 30, 2015, recording operating income of $27.9 million compared with an operating loss of $13.8 million for fiscal year 2014, an improvement of $41.7 million. When non-operating revenues, expenses and special items are included, the District realized a net gain of $27.1 million for the twelve months ended June 30, 2015, compared with a net loss of $9.9 million for the previous twelve month period, an improvement of $37.0 million.

- Major items that impacted the District's operating results for the fiscal year ended June 30, 2015 (fiscal year 2015), as compared to those for the fiscal year ended June 30, 2014 (fiscal year 2014), included:

    - Net patient revenues increased $29.8 million (6.7 percent), due to increased patient activity and a more favorable payor mix. The improvement in payor mix was due to increases in managed care volumes (particularly from preferred provider organizations) and Medi-Cal expansion, which resulted in fewer uninsured patients.

    - Operating expenses decreased $15.8 million (3.4 percent), with salaries and benefits decreasing by $22.3 million (8.2 percent) and all other expenses increasing by $6.5 million (3.2 percent) in total.

- Impact of changes in accounting guidance:

  For fiscal year 2015, WHHS adopted the provisions of GASB No. 69, *Government Combinations and Disposals of Government Operations*, as they relate to the amortization of goodwill acquired in a business combination. Prior to fiscal year 2015, WHHS accounted for goodwill under the guidance of Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2012-02, *Intangibles, Goodwill and Other*, with impairment testing performed at least annually.

Government Accounting Standards Board (GASB) Statement No. 69 *Government Combinations and Disposals of Government Operations*, was adopted on a prospective basis, consistent with the requirements of the guidance. The impact of the adoption was the addition of $672,000 in goodwill amortization expense for fiscal year 2015. This amount is included in *Other operating expenses*. Within the Statements of Net Position, for years ended after June 30, 2014, unamortized goodwill is reflected in *Deferred Outflows of Resources – goodwill*; for years ended prior to June 30, 2015, unamortized goodwill is reflected in *Other assets – goodwill*.

District Financial Highlights for Fiscal Year 2014

- In July 2013, the District implemented the Epic Electronic Health Record (EHR) system for Washington Hospital (the Hospital). The implementation was the culmination of approximately two years of preparation. The Epic install went smoothly and there was no significant impact on cash flow nor known loss of revenue as a result of the go-live. The implementation was determined to have stabilized by the end of July 2013 and the initial optimization effort was substantially completed by December 2013. The District incurred additional nonrecurring operating expenses in fiscal year 2014, related to the Epic go-live and initial optimization process.

- In November 2013, the District issued two additional series of general obligation bonds (the 2013 Series A and B bonds). The combined amount of the two issuances was $145.5 million. The 2013 bonds were issued to provide funds for the construction of a new garage and a critical care building, to include emergency care, intensive care and cardiac care services. As general obligation bonds, the District will be reimbursed by Alameda County for debt service on these bonds from property tax assessments on real property within the District.

- During fiscal year 2014, the District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), and elected early adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB 27* (GASB 68). Both of these adoptions required retroactive restatements of certain amounts reported as of July 1, 2012, with related impacts on the ending balances as of June 30, 2013.

    - Prior to the adoption of GASB 65, the District capitalized and amortized bond issuance costs over the life of the related bonds. Adoption of GASB 65 required the elimination of unamortized bond issuance costs of $2.5 million as of July 1, 2012, and a corresponding reduction in the net position category *Invested in capital assets, net of related debt.* Interest expense for 2013, as calculated under previous guidance, included $0.2 million of amortization related to bond issuance costs which has been eliminated from the restated interest expense for 2013.

    - Prior to the adoption of GASB 68, the District reported a pension liability only for the cumulative amount of unfunded actuarially required contributions, consistent with prior accounting standards. Under GASB 68, the entire unfunded pension liability is required to be recognized and reported as an obligation in the financial statements of the District. Previously, this information was disclosed as supplemental information only. Adoption of GASB 68 resulted in the recognition of an additional $133.0 million pension-related liability and a corresponding reduction in unrestricted net position of $133.0 million as of July 1, 2012. The restated pension expense for 2013 under GASB 68 was $2.5 million less than the amount calculated under the previous guidance.

- Also related to the GASB 68 adoption, two new financial statement line items were added to the District's Statements of Net Position – deferred outflows and deferred inflows of resources.

  - Deferred outflows of resources, for the District, include $18.5 million in pension contributions made by the District after the January 1 measurement date (defined in GASB 68) for the pension liability. These contributions will be included in the calculation of the net pension liability for the subsequent measurement date. The balance of the deferred outflows ($4.9 million) represents unamortized amounts related to changes in actuarial assumptions and unfavorable differences between expected and actual demographic changes related to pension participants. These amounts will be amortized and included in pension cost for future years.

  - Deferred inflows of resources, for the District, represent unamortized differences between expected and actual investment earnings on pension assets, and favorable differences between expected and actual demographic changes related to pension participants. These amounts will be amortized and offset against pension cost for future years.

Analysis of the District's Net Position – Fiscal Year 2015

- Total assets increased $16.8 million, from $876.1 million at June 30, 2014 to $892.9 million at June 30, 2015. Total cash and investments increased by $2.9 million, from $373.0 million to $375.9 million, while net patient accounts receivable of $68.0 million at June 30, 2015 increased by $10.8 million from $57.2 million at June 30, 2014. Days of gross revenue in accounts receivable were 65.1 at June 30, 2015 as compared to 69 at June 30, 2014. Net capital assets increased $13.9 million, from $415.0 million to $428.9 million.

- Total liabilities increased $2.3 million, from $615.3 million at June 30, 2014 to $617.6 million at June 30, 2015.

- Total net position of $295.3 million at June 30, 2015 was $27.2 million more than the net position of $268.1 million at June 30, 2014, a direct result of the improved operating performance in fiscal year 2015.

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

(in thousands)	2015	2014	2013
Assets			
Current assets	$ 123,501	$ 109,471	$ 117,956
Long-term investment and restricted funds	332,675	335,674	330,469
Capital assets, net	428,860	415,006	407,220
Other assets	7,859	15,902	17,164
Total assets	892,895	876,053	872,809
Deferred outflows of resources	31,194	23,403	1,651
Total assets and deferred outflows of resources	$ 924,089	$ 899,456	$ 874,460
Liabilities			
Current liabilities	$ 102,094	$ 90,843	$ 98,494
Net pension liability	66,440	71,400	175,770
Long-term debt	406,128	412,137	273,101
Other long-term liabilities	42,964	40,966	40,592
Total liabilities	617,626	615,346	587,957
Deferred inflows of resources	11,199	15,978	8,518
Net position			
Invested in capital assets, net of related debt	159,456	155,732	162,914
Restricted - expendable	2,801	2,801	2,801
Restricted for minority interest	5,488	5,107	5,048
Unrestricted	127,519	104,492	107,222
Total net position	295,264	268,132	277,985
Total liabilities, net position and deferred inflows of resources	$ 924,089	$ 899,456	$ 874,460

In 2015, the District's available cash and investments increased $2.9 million.

Table 2 provides a summary of cash and investments as of June 30, 2015, 2014 and 2013.

(in thousands)	2015	2014	2013
Cash and cash equivalents and short-term investments	$ 43,216	$ 37,357	$ 39,700
Board designated fund – funded depreciation	175,420	158,288	163,023
Board designated fund – pension funding	-	-	114,366
Workers' compensation fund	11,648	11,501	11,310
Unexpended capital bond funds, excluding amounts required for current liabilities	142,806	163,084	38,969
Specific purpose fund	2,801	2,801	2,801
Total available cash and investments	$ 375,891	$ 373,031	$ 370,169

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.

Analysis of the District's Net Position – Fiscal Year 2014

- Total assets increased $3.3 million, from $872.8 million at June 30, 2013 to $876.1 million at June 30, 2014. Total cash and investments increased by $2.8 million, from $370.2 million to $373.0 million, while net patient accounts receivable of $57.2 million at June 30, 2014 decreased by $10.4 million from $67.6 million at June 30, 2013. Days of gross revenue in accounts receivable were 69 at June 30, 2014 as compared to 58 at June 30, 2013. Open accounts from the Alameda County Medi-Cal HMO, Alameda Alliance for Health (Alameda Alliance), accounted for the majority of the increase in accounts receivable days. Alameda Alliance accounts receivable had grown substantially as of June 30, 2014, due to a failed computer conversion and other financial issues affecting this payor. Net capital assets increased $7.8 million, from $407.2 million to $415.0 million.

- Total liabilities increased $27.3 million, from $588.0 million at June 30, 2013 to $615.3 million at June 30, 2014.

  - This overall increase included a $139.0 million increase in long-term debt, resulting primarily from the issuance of the 2013 general obligation bonds.

  - This increase was largely offset by a $104.4 million reduction in net pension liability. The reduction in net pension liability reflected the contribution of $115.5 million in Board-designated funds previously set aside for pension funding.

  - Current liabilities decreased $7.7 million, from $98.5 million to $90.8 million, and long-term liabilities increased $35.0 million, from $489.5 million to $524.5 million.

- Total net position of $268.1 million at June 30, 2014 was $9.9 million less than the net position at June 30, 2013 of $278.0 million.

Capital Assets, Net (2015)

Net capital assets increased $13.9 million, from $415.0 million at June 30, 2014 to $428.9 million at June 30, 2015. This increase resulted from $37.7 million in net capital additions and $10.6 million in net capitalized interest expense, offset by $34.4 million in operating and non-operating depreciation of the District's assets. The net capital additions included $15.8 million in equipment, building, and land improvements combined with an increase of $32.3 million in construction in progress related to the new parking garage and Critical Care Pavilion projects. At June 30, 2015, outstanding commitments related to capital projects totaled $214 million.

Capital Assets, Net (2014)

Net capital assets increased $7.8 million, from $407.2 million at June 30, 2013 to $415.0 million at June 30, 2014. This increase resulted from $34.5 million in net capital additions and $8.4 million in net capitalized interest expense, offset by $35.1 million in operating and non-operating depreciation of the District's assets. The net capital additions included $80.1 million in equipment, building, and land improvements combined with a decrease of $40.2 million in construction in progress resulting from the implementation and capitalization of the Epic Electronic Health Record (Epic or EHR) in July 2013. Capital expenditures for 2014 included additional amounts for Epic (in July 2013) and initial expenditures for a new parking garage and critical care pavilion. At June 30, 2014, outstanding commitments related to capital projects totaled $21.6 million.

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

Debt Administration (2015 and 2014)

As part of the obligations under the bond indentures for the 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, 2015, Washington Hospital's long-term debt service coverage ratio was 4.6 to 1.0. For the year ended June 30, 2014, Washington Hospital's long-term debt coverage ratio was 2.3 to 1.0. During the years ended June 30, 2015 and 2014, Washington Hospital's Moody's rating of Baa1 was unchanged, although the outlook was revised from negative to stable.

Table 3 shows the revenues, expenses, and changes in net position for the District for the years ended June 30, 2015, 2014 and 2013:

(in thousands)	**2015**	**2014**	**2013**
Operating revenues			
Net patient service revenues	$ 475,739	$ 445,902	$ 467,029
Other	7,143	11,114	9,459
Total operating revenues	482,882	457,016	476,488
Operating expenses			
Salaries and wages	180,310	192,191	195,107
Employee benefits	67,872	78,322	83,349
Supplies	55,602	56,241	58,664
Professional fees	61,556	59,573	55,038
Purchased services	38,229	36,208	38,629
Depreciation	33,971	34,665	28,142
Insurance	1,895	1,873	2,352
Goodwill impairment	-	-	2,038
Other operating expenses	15,554	11,746	9,942
Total operating expenses	454,989	470,819	473,261
Operating income (loss)	27,893	(13,803)	3,227
Nonoperating revenues and expenses, net	1,032	5,603	539
Increase (decrease) in net position before minority interest and restricted funds	28,925	(8,200)	3,766
Additional minority interest capital received	151	-	313
Minority interest distributions	(1,944)	(1,653)	(1,415)
Increase (decrease) in net position	27,132	(9,853)	2,664
Net position			
Beginning of year	268,132	277,985	410,793
Impact of adoption of GASB Nos. 65 and 68	-	-	(135,472)
End of year	$ 295,264	$ 268,132	$ 277,985

Revenue and Expense Analysis for the District – Fiscal Year 2015

Net Patient Service Revenues

In fiscal year 2015, net patient service revenues increased by $29.8 million or 6.7 percent. The increase represented the net effect of several volume changes, the largest of which included:

> Inpatient days, as indicated in the table below, increased by 730 (1.2 percent). The major factor contributing to the increase in patient days was inpatient vascular imaging procedure volume which was up 9 percent, from 3,301 in fiscal year 2014 to 3,595 in fiscal year 2015.
>
> Outpatient surgeries performed at the Hospital increased by 185 (22.7 percent), from 816 in fiscal year 2014 to 1,001 in fiscal year 2015.
>
> Surgeries performed at the Washington Outpatient Surgery Center increased by 203 (2.8 percent) from 7,212 in fiscal year 2014 to 7,415 in fiscal year 2015.

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

Inpatient Business Activity

The District's gross inpatient revenue decreased by 0.5 percent, from $1.486 billion in fiscal year 2014 to $1.478 billion in fiscal year 2015.

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

	2015 Days	**2014 Days**	**% Change**
Specialty			
Medical/surgical	44,091	43,458	1.5 %
Critical care	7,865	8,359	(5.9)
Pediatrics	396	297	33.3
Obstetrics	5,200	4,903	6.1
	57,552	57,017	0.9
Newborn	3,917	3,722	5.2
Total patient days	61,469	60,739	1.2 %

Although admissions increased by 617 (5.4 percent) to 12,070 from 11,453, the average length of stay dropped to 4.74 from 4.95 (a 4.2 percent decline), resulting in the District's patient days increasing slightly from 57,017 to 57,522 days with the average daily census, for adults and pediatric patients, increasing from 156.2 patients to 157.7 patients.

The overall case mix index for the District, which is a measure of patient acuity, decreased from 1.530 in fiscal year 2014 to 1.472 in fiscal year 2015. The Medicare case mix index for the same period also decreased from 1.760 to 1.684.

Outpatient Business Activity

The District's gross outpatient revenue increased 7.3 percent, from $607.5 million in fiscal year 2014 to $652.1 million in fiscal year 2015. The increased gross revenues were due primarily to the increase in outpatient surgeries, as noted above, in addition to a 6.3 percent increase in outpatient vascular imaging procedures (from 3,687 in 2014 to 3,918 in 2015).

Emergency visits of 54,262 for fiscal year 2015 were 3,234 visits higher (6.3 percent) than the prior year visits of 51,028. Non-emergency outpatient visits of 65,883 were 2,625 visits (3.8 percent) lower than those for fiscal year 2014 (68,508).

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 76.11 percent and 75.47 percent for fiscal year 2015 and 2014, respectively. The increase resulted primarily from an increase in the proportion of patients covered by government payors, in particular Medi-Cal, compounded by Medicare mandated payment reductions. The increase in Medi-Cal patients is attributed to the expansion of Medi-Cal coverage through the Affordable Care Act.

Charity Care

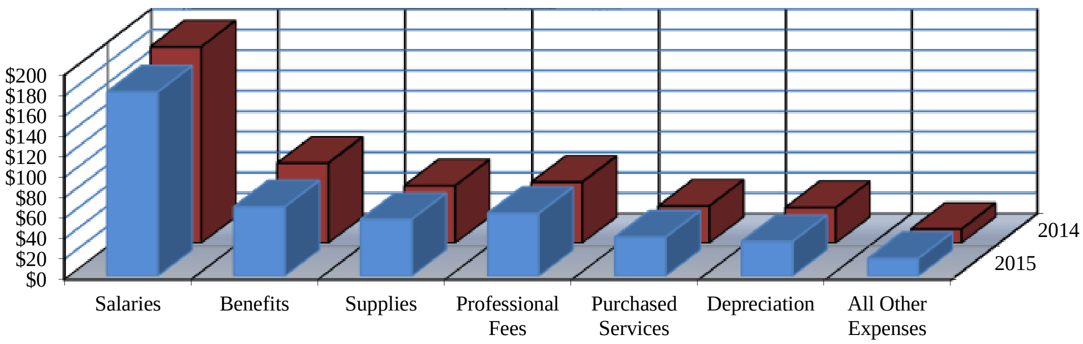
The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $8.2 million and $16.4 million in charges foregone related to charity care for patient services during fiscal years 2015 and 2014, respectively. Private pay revenues, which are the primary driver of charity care allowances, dropped by $35.6 million (52.7 percent) from fiscal year 2014 to fiscal year 2015. The reduction in private pay revenues is attributed to the availability of coverage under the Affordable Care Act and the expansion of Medi-Cal coverage.

Provisions for Bad Debt

The provisions for bad debt (expressed as a percentage of gross revenues) were 1.47 percent in fiscal year 2015, compared to 3.07 percent in fiscal year 2014. As discussed above, there was a significant reduction in private pay revenues in fiscal year 2015. In addition to being the primary driver of charity care allowances, private pay revenues also account for the majority of bad debt write-offs, therefore, the reduction in private pay revenues also results in lower bad debt expenses.

Operating Expenses

Total operating expenses were $455.0 million and $470.8 million for fiscal years 2015 and 2014, respectively, as summarized in the graph below:



Total operating expenses decreased by $15.8 million (3.4 percent) from 2014 to 2015, with the most significant reductions attributable to wage-related expenses.

Salaries and Wages

- The alignment of staffing with volumes resulted in an $11.9 million reduction in salary expenses (6.2 percent) between fiscal year 2014 and fiscal year 2015. In July 2013, the Hospital had 1,577 FTEs. The Hospital's FTEs for fiscal year 2015 were 1,335, a decrease of more than 200 FTEs over a two-year period. The majority of staffing reductions were achieved through attrition and voluntary retirements. Total FTEs decreased by 121 to 1,591 between June 30, 2014 and June 30, 2015, a reduction of 7.7 percent.

- Benefits expense was reduced by $10.5 million. Employee health and welfare and pension expenses were the two largest contributors to the benefits cost reduction and were primarily by-products of the staffing reductions.

Other Operating Expenses

- Despite the increase in inpatient days, supplies expense decreased $0.6 million (1.1 percent) in fiscal year 2015. Depreciation also decreased $0.7 million (2.0 percent). Professional fees and purchased services increased by $2.0 million each (increases of 3.3 and 5.5 percent, respectively), in fiscal year 2015. Other expenses increased in fiscal year 2015 by $3.9 million due to non-recurring items.

Non-Operating Income/Expense

The most significant changes in non-operating activity for fiscal year 2015 were the following items:

- Investment income, including realized gains, of $2.5 million for fiscal year 2015 was $1.1 million less than for fiscal year 2014 ($3.6 million).
- The fair value of investments decreased by $1.0 million between June 30, 2014 and June 30, 2015.
- Property tax revenues of $9.9 million for fiscal year 2015 were $2.7 million less than for fiscal year 2014 ($12.6 million).
- Bond issuance costs of $1.2 million were incurred in November 2013; no such costs were incurred in fiscal year 2015.

Revenue and Expense Analysis for the District – Fiscal Year 2014

Net Patient Service Revenues

In fiscal year 2014, net patient service revenues decreased by $21.1 million or 4.5 percent. The decrease represented the net effect of several volume changes, the largest of which included:

> Inpatient days, as indicated in the table below, decreased by a total of 6 percent. The major factor contributing to the decrease in patient days was lower inpatient surgical cases (down 8.0 percent from 3,664 in fiscal year 2013 to 3,366 in fiscal year 2014).
>
> Surgeries performed at the Washington Outpatient Surgery Center increased by 491 (7.3 percent) from 6,721 in fiscal year 2013 to 7,212 in fiscal year 2014.

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

Inpatient Business Activity

The District's gross inpatient revenue decreased by 6.3 percent, from $1.586 billion in fiscal year 2013 to $1.486 billion in fiscal year 2014. Total acute patient days (excluding newborns) decreased by 3,388, from 60,405 to 57,017.

Table 5 presents the patient days for each year and the percentage change:

	2014 Days	2013 Days	% Change
Specialty			
Medical/surgical	43,458	45,658	(4.8)%
Critical care	8,359	8,526	(2.0)
Pediatrics	297	728	(59.2)
Obstetrics	4,903	5,493	(10.7)
	57,017	60,405	(5.6)
Newborn	3,722	4,229	(12.0)
Total patient days	60,739	64,634	(6.0)%

The overall case mix index for the District, which is a measure of patient acuity, increased slightly from 1.526 in fiscal year 2013 to 1.530 in fiscal year 2014. The Medicare case mix index for the same period also increased slightly from 1.759 to 1.760.

Outpatient Business Activity

The District's gross outpatient revenue increased 1.7 percent, from $597.5 million in fiscal year 2013 to $607.5 million in fiscal year 2014. The increased gross revenues were due primarily to the increase in outpatient surgeries noted above, and a full year impact of rate increases implemented in fiscal year 2013.

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 75.47 percent and 75.08 percent for fiscal year 2014 and 2013, respectively. The increase resulted primarily from an increase in the proportion of patients covered by government payors, in particular Medi-Cal, compounded by Medicare mandated payment reductions, and continued pressure from commercial payors to negotiate lower payment rates. The increase in Medi-Cal patients is attributed to the expansion of Medi-Cal coverage.

Charity Care

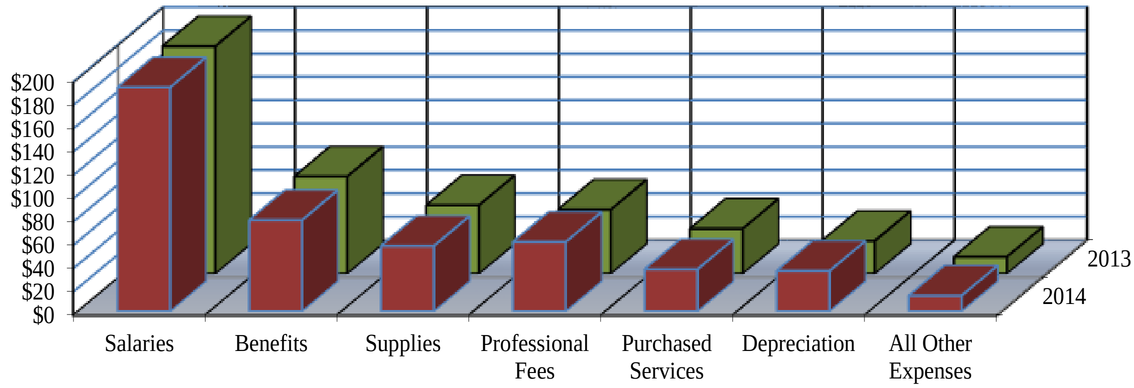
The District provides care without charge to patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $16.4 million and $20.6 million in charges foregone related to charity care for patient services during fiscal years 2014 and 2013, respectively. Private pay revenues, which are the primary driver of charity care allowances, dropped by $24.6 million (26.7 percent) from fiscal year 2013 to fiscal year 2014. The reduction in private pay revenues is attributed to the availability of coverage under the Affordable Care Act and the expansion of Medi-Cal coverage.

Provisions for Bad Debt

The provisions for bad debt (expressed as a percentage of gross revenues) were 3.07 percent in fiscal year 2014, compared to 3.32 percent in fiscal year 2013. As discussed above, there was a significant reduction in private pay revenues in fiscal year 2014. In addition to being the primary driver of charity care allowances, private pay revenues also account for the majority of bad debt write-offs, therefore, the reduction in private pay revenues also results in lower bad debt expenses.

Operating Expenses

Total operating expenses were $470.8 million and $473.3 million for fiscal years 2014 and 2013, respectively, as summarized in the graph below:



Salaries and Wages

Total District salaries and wages decreased 1.5 percent, from $195.1 million in fiscal year 2013 to $192.2 million in fiscal 2014. The decrease in salaries and wages was attributable to the combined effect of normal flexing of staffing in response to reduced volumes, offset by contracted rate increases of between 1.0 percent and 3.0 percent and additional contracted staffing used for the Epic implementation and initial optimization period.

Total FTEs decreased by 46 to 1,712 at June 30, 2014, from 1,758 at June 30, 2013, a decrease of 2.6 percent. The majority of the decrease in FTEs was due to staffing adjustments made in response to lower volumes experienced throughout the year, and the completion of the EPIC implementation.

As of June 30, 2014, approximately 66 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.

Employee Benefits

Overall, the District's benefits cost decreased by 6.0 percent, from $83.3 million for fiscal year, 2013 to $78.3 million for fiscal year 2014. This reduction was primarily related to a decrease in pension expense for fiscal year 2014, which was attributable to a reduction in force in fiscal year 2013.

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"). 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, 2015. 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, 2014 and 2015, the reduction in reimbursement was $2.1 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 2014 and 2015, DSH payments received were $9.3 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 2014, the District's revenues included $2.0 million in Medicare EHR and $0.7 million in Medi-Cal EHR funding. Although the District remains on track to qualify for additional meaningful use incentive payments, based on the timing of the attestation process, the District did not recognize any additional EHR revenues for fiscal year 2015.

Economic Factors Expected to Affect the District's 2016 Operations

The Board of Directors of the District approved the fiscal year 2016 operating budget at their June 2015 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 2016 budget anticipates a 3.0 percent increase in expenditures from the fiscal year 2015 level. This increase includes an 6.0 percent increase in salaries and wages, resulting from a 1.5 percent projected increase in inpatient days, in combination with contractual salary increases.

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

Foundation Financial Highlights for Fiscal Year 2015

- Total assets of $7.5 million at June 30, 2015 decreased $0.1 million from $7.6 million at June 30, 2014. Total cash and investments increased $0.1 million, from $6.2 million to $6.3 million, while net contributions receivable decreased $0.1 million from $1.3 million to $1.2 million.

- Net assets decreased $0.1 million during 2015, from $7.6 million to $7.5 million.

Foundation Financial Highlights for Fiscal Year 2014

- Total assets of $7.6 million at June 30, 2014 increased $0.3 million from $7.3 million at June 30, 2013. Total cash and investments increased $0.9 million, from $5.3 million to $6.2 million, while net contributions receivable decreased $0.7 million from $2.0 million to $1.3 million.

- Net assets decreased $0.1 million during 2014, from $7.3 million to $7.2 million.

Analysis of the Foundation's Net Assets – Fiscal Years 2015 and 2014

Total Foundation assets of $7.5 million at June 30, 2015, decreased by $0.1 million from June 30, 2014. Total Foundation liabilities decreased by $0.4 million, from $0.4 million at June 30, 2014 to zero as of June 30, 2015 and the Foundation's net assets decreased by $0.1 million, from $7.6 million at June 30, 2014 to $7.5 million at June 30, 2015.

Total Foundation assets of $7.6 million at June 30, 2014 increased by $0.3 million from $7.3 million at June 30, 2013. The Foundation's net assets at June 30, 2014 of $7.2 million decreased by $0.1 million, from $7.3 million, at June 30, 2013.

Table 6 provides a summary of the Foundation's assets, liabilities, and net assets as of June 30, 2015, 2014 and 2013:

(in thousands)	**2015**	**2014**	**2013**
Assets			
Cash and cash equivalents	$ 311	$ 350	$ 698
Contributions receivable, net	1,183	1,307	1,971
Short term investments held by district on behalf of foundation	4,456	4,445	3,337
Prepaid expenses and other	76	70	-
Investments	1,514	1,445	1,259
Total assets	$ 7,540	$ 7,617	$ 7,265
Liabilities			
Accounts payable and accrued expenses	$ -	$ 373	$ -
Total liabilities	-	373	-
Net assets			
Restricted - expendable	6,969	6,817	6,594
Unrestricted	571	427	671
Total net assets	7,540	7,244	7,265
Total liabilities and net assets	$ 7,540	$ 7,617	$ 7,265

In fiscal year 2015 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 $0.1 million, from $6.2 million at June 30, 2014 to $6.3 million at June 30, 2015.

In fiscal year 2014 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 $0.9 million, from $5.3 million at June 30, 2013 to $6.2 million at June 30, 2014.

Table 7 provides a summary of cash and investments for the Foundation as of June 30, 2015, 2014 and 2013:

(in thousands)	2015	2014	2013
Cash and cash equivalents	$ 311	$ 350	$ 698
Money market and certificates of deposit	528	526	524
Equity mutual fund	986	920	735
	1,825	1,796	1,957
Local Agency Investment Funds held by District on behalf of Foundation	4,456	4,445	3,337
Total available cash and investments	$ 6,281	$ 6,241	$ 5,294

Table 8 shows the Foundation's activities and changes in net position for 2015, 2014 and 2013:

	2015			2014			2013		
(in thousands)	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support									
Contributions	$ 67	$ 701	$ 768	$ 9	$ 1,102	$ 1,111	$ 5	$ 911	$ 916
Contributed services	245	15	260	208	22	230	204	49	253
Investment income	33	-	33	27	-	27	45	-	45
Unrealized gain (loss) on investments	48	-	48	169	-	169	108	-	108
	393	716	1,109	413	1,124	1,537	362	960	1,322
Net assets released from restrictions	564	(564)	-	901	(901)	-	755	(755)	-
Total revenues, gains, and support	957	152	1,109	1,314	223	1,537	1,117	205	1,322
Expenses									
General and administrative	635	-	635	706	-	706	612	-	612
Donation to Pathways Hospice	10	-	10	-	-	-	-	-	-
Donation to Citizens for Measure Z	-	-	-	-	-	-	75	-	75
Donation to Washington Township Health Care District	168	-	168	852	-	852	597	-	597
Total expenses	813	-	813	1,558	-	1,558	1,284	-	1,284
Increase (decrease) in net position	144	152	296	(244)	223	(21)	(167)	205	38
Net position									
Beginning of year	427	6,817	7,244	671	6,594	7,265	838	6,389	7,227
End of year	$ 571	$ 6,969	$ 7,540	$ 427	$ 6,817	$ 7,244	$ 671	$ 6,594	$ 7,265

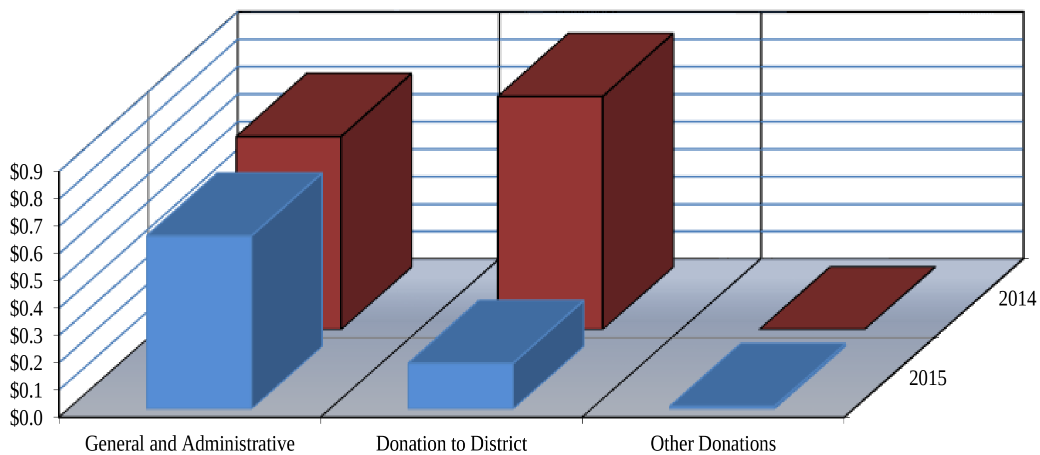
Revenue and Expense Analysis for the Foundation – Fiscal Year 2015

Revenues, Gains and Support

Total revenues, gains and support decreased 27.8 percent from $1.5 million in fiscal year 2014 to $1.1 million in fiscal year 2015. Contributions decreased $0.3 million from $1.1 million in fiscal year 2014 to $0.8 million in fiscal year 2015.

Expenses

Total expenses for the Foundation were $0.8 million and $1.6 million for fiscal years 2015 and 2014, respectively, as summarized in the graph below:



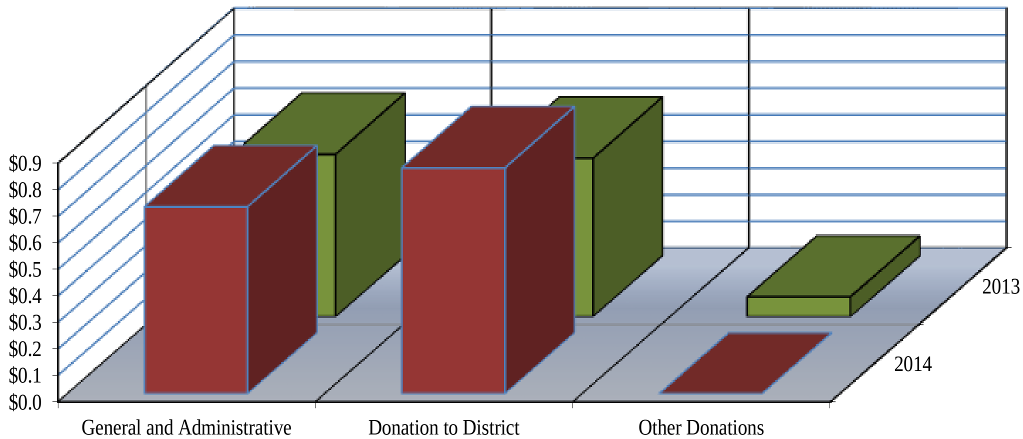
Revenue and Expense Analysis for the Foundation – Fiscal Year 2014

Revenues, Gains and Support

Total revenues, gains and support increased 16.3 percent from $1.3 million in fiscal year 2013 to $1.5 million in fiscal year 2014. Contributions increased by $0.2 million from $0.9 million in fiscal year 2013 to $1.1 million in fiscal year 2014.

Expenses

Total expenses for the Foundation were $1.6 million and $1.3 million for fiscal years 2014 and 2013, respectively, as summarized in the graph below:



Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the District, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the District expects or anticipates will or may occur in the future, contain forward-looking information.

Washington Township Health Care District
Statements of Net Position
June 30, 2015 and 2014

	District 2015	District 2014	Foundation 2015	Foundation 2014
Assets				
Current assets				
Cash and cash equivalents	$ 23,881,000	$ 19,499,000	$ 311,000	$ 350,000
Short-term investments	19,335,000	17,858,000	1,514,000	1,445,000
Short-term investments held by District on behalf of Foundation	-	-	4,456,000	4,445,000
Patient accounts receivable, less allowance for estimated uncollectibles of $19,998,000 and $25,675,000 in 2015 and 2014, respectively	68,001,000	57,210,000	-	-
Contributions receivable, net, due in less than 1 year	-	-	122,000	125,000
Due from third party payors	1,900,000	3,364,000	-	-
Supplies	3,271,000	3,618,000	-	-
Prepaid expenses and other	7,113,000	7,922,000	76,000	70,000
Total current assets	123,501,000	109,471,000	6,479,000	6,435,000
Long-term investment and restricted funds				
Board-designated for capital, debt and workers' compensation	187,068,000	169,789,000	-	-
Held by trustee	142,806,000	163,084,000	-	-
Restricted funds	2,801,000	2,801,000	-	-
Capital assets, net	428,860,000	415,006,000	-	-
Other assets				
Contributions receivable, net, due in more than 1 year	-	-	1,061,000	1,182,000
Goodwill	-	7,394,000	-	-
Other noncurrent assets	7,859,000	8,508,000	-	-
Total assets	892,895,000	876,053,000	7,540,000	7,617,000
Deferred outflows of resources				
Deferred outflows of resources - goodwill	6,722,000	-	-	-
Deferred outflows of resources - pension	24,472,000	23,403,000	-	-
Total deferred outflows	31,194,000	23,403,000	-	-
Total assets and deferred outflows of resources	$ 924,089,000	$ 899,456,000	$ 7,540,000	$ 7,617,000
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 6,081,000	$ 10,222,000	$ -	$ -
Accounts payable and accrued expenses	31,070,000	24,551,000	-	373,000
Due to Foundation	4,456,000	4,445,000	-	-
Due to third party payors	12,747,000	5,004,000	-	-
Accrued liabilities				
Payroll related	8,026,000	7,692,000	-	-
Vacation	14,631,000	14,351,000	-	-
Health benefits	3,263,000	3,457,000	-	-
Interest	9,872,000	10,119,000	-	-
Other	11,948,000	11,002,000	-	-
Total current liabilities	102,094,000	90,843,000	-	373,000
Long-term liabilities				
Workers' compensation claims	6,441,000	6,501,000	-	-
Net pension liability	66,440,000	71,400,000	-	-
Post-retirement employee medical benefits	36,523,000	34,465,000	-	-
Long-term debt, net of current maturities	208,782,000	213,434,000	-	-
Long-term debt, general obligation bonds	197,346,000	198,703,000	-	-
Total long-term liabilities	515,532,000	524,503,000	-	-
Total liabilities	617,626,000	615,346,000	-	373,000
Deferred inflows of resources - pension	11,199,000	15,978,000	-	-
Net position				
Invested in capital assets, net of related debt	159,456,000	155,732,000	-	-
Restricted - expendable	2,801,000	2,801,000	6,969,000	6,817,000
Restricted for minority interest	5,488,000	5,107,000	-	-
Unrestricted	127,519,000	104,492,000	571,000	427,000
Total net position	295,264,000	268,132,000	7,540,000	7,244,000
Total liabilities, deferred inflows of resources and net position	$ 924,089,000	$ 899,456,000	$ 7,540,000	$ 7,617,000

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

Washington Township Health Care District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

	District		Foundation	
	2015	2014	2015	2014
Operating revenues				
Net patient service revenues	$ 475,739,000	$ 445,902,000	$ -	$ -
Other	6,975,000	10,262,000	-	-
Contributions	168,000	852,000	768,000	1,111,000
Contributed services	-	-	260,000	230,000
Total operating revenues	482,882,000	457,016,000	1,028,000	1,341,000
Operating expenses				
Salaries and wages	180,310,000	192,191,000	-	-
Employee benefits	67,872,000	78,322,000	-	-
Supplies	55,602,000	56,241,000	-	-
Professional fees	61,556,000	59,573,000	-	-
Purchased services	38,229,000	36,208,000	-	-
Depreciation	33,971,000	34,665,000	-	-
Insurance	1,895,000	1,873,000	-	-
Donations	-	-	178,000	852,000
Other operating expenses	15,554,000	11,746,000	635,000	706,000
Total operating expenses	454,989,000	470,819,000	813,000	1,558,000
Operating income (loss)	27,893,000	(13,803,000)	215,000	(217,000)
Nonoperating revenues and expenses				
Investment income	2,615,000	3,586,000	33,000	27,000
Net increase (decrease) in the fair value of investments	(952,000)	541,000	48,000	169,000
Interest expense, including amortization of premiums and discounts on bonds payable	(10,709,000)	(10,542,000)	-	-
Property tax revenue	9,935,000	12,620,000	-	-
Bond issuance costs	-	(1,182,000)	-	-
Other nonoperating income	143,000	580,000	-	-
Total nonoperating revenues and expenses	1,032,000	5,603,000	81,000	196,000
Increase (decrease) in net position before other changes	28,925,000	(8,200,000)	296,000	(21,000)
Minority interest - additional contributions from	151,000	-	-	-
Minority interest - distributions to	(1,944,000)	(1,653,000)	-	-
Increase (decrease) in net position after other changes	27,132,000	(9,853,000)	296,000	(21,000)
Total net position				
Beginning of year	268,132,000	277,985,000	7,244,000	7,265,000
End of year	$ 295,264,000	$ 268,132,000	$ 7,540,000	$ 7,244,000

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

Washington Township Health Care District
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	District		Foundation	
	2015	2014	2015	2014
Cash flows from operating activities				
Cash received from patient service activities	$ 464,948,000	$ 456,271,000	$ -	$ -
Other cash receipts	7,143,000	11,114,000	892,000	1,775,000
Cash payments to suppliers	(156,812,000)	(168,586,000)	(381,000)	(546,000)
Cash payments to employees and employee benefit programs	(255,648,000)	(390,110,000)	-	-
Net cash provided by (used in) operating activities	59,631,000	(91,311,000)	511,000	1,229,000
Cash flows from noncapital financing activities				
Donation from Foundation to District	541,000	479,000	(541,000)	(479,000)
Other donations	-	-	(10,000)	-
Net cash provided by (used in) noncapital financing activities	541,000	479,000	(551,000)	(479,000)
Cash flows from capital and related financing activities				
Purchases of capital assets	(36,344,000)	(45,632,000)	-	-
Proceeds from sale of capital assets	-	153,000	-	-
Principal paid on debt	(10,291,000)	(10,569,000)	-	-
Interest paid on debt	(21,681,000)	(16,190,000)	-	-
Sale of net assets to minority shareholders in Washington Outpatient Surgery Center, LLC	151,000	-	-	-
Net assets distributed to minority shareholders in Washington Outpatient Surgery Center, LLC	(1,944,000)	(1,653,000)	-	-
Proceeds from debt issuance, net of issuance costs	262,000	148,639,000	-	-
Proceeds from property taxes levied by the County	10,306,000	14,381,000	-	-
Net cash provided by (used in) capital and related financing activities	(59,541,000)	89,129,000	-	-
Cash flows from investing activities				
Purchases of investments	(81,474,000)	(204,862,000)	(33,000)	(1,216,000)
Sales of investments	82,044,000	210,923,000	-	91,000
Investment income	2,676,000	3,012,000	34,000	27,000
Other nonoperating income received	505,000	1,012,000	-	-
Net cash provided by (used in) investing activities	3,751,000	10,085,000	1,000	(1,098,000)
Net increase (decrease) in cash and cash equivalents	4,382,000	8,382,000	(39,000)	(348,000)
Cash and cash equivalents				
Beginning of year	19,499,000	11,117,000	350,000	698,000
End of year	$ 23,881,000	$ 19,499,000	$ 311,000	$ 350,000
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	$ 27,893,000	$ (13,803,000)	$ 215,000	$ (217,000)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	33,971,000	34,665,000	-	-
Loss on disposal of fixed assets	59,000	152,000	-	-
Provision for doubtful accounts	39,450,000	63,716,000	-	-
Amortization of goodwill	672,000	-	-	-
Pension funding	(22,700,000)	(134,026,000)	-	-
Net change in deferred outflows and inflows	(19,347,000)	4,208,000	-	-
Donations	-	-	551,000	479,000
Changes in assets and liabilities				
Accounts receivables	(50,241,000)	(53,347,000)	124,000	664,000
Supplies, prepaid expenses, and other current assets	1,095,000	(289,000)	(6,000)	(70,000)
Other assets	275,000	1,635,000	-	-
Due to Foundation	11,000	1,108,000	-	-
Due from/to third party payors	9,207,000	(2,970,000)	-	-
Accounts payable and accrued expenses	5,163,000	(1,899,000)	(373,000)	373,000
Payroll, vacation, and health accrued liabilities	420,000	(3,226,000)	-	-
Other liabilities	33,703,000	12,765,000	-	-
Net cash provided by (used in) operating activities	$ 59,631,000	$ (91,311,000)	$ 511,000	$ 1,229,000
Noncash transactions				
Capitalized interest	$ 10,605,000	$ 8,379,000	$ -	$ -
Accounts payable and accrued expenses for property and equipment purchases	8,745,000	7,389,000	-	-
Contributed services	-	-	260,000	230,000

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

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.

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 Government 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 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 recorded as other operating expense in the District.

Contributions Received

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

Promises to Give

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.

Business Combinations and Goodwill

Prior to the District's fiscal year 2015 adoption of Government Accounting Standards Board Statement No. 69 (GASB 69), *Government Combinations and Disposals of Government Operations*, business combinations were accounted for under the purchase accounting method; the cost of an acquired company was assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired required the District to make estimates and use valuation techniques when market value was not readily available. Any excess of purchase price over the fair value of the tangible and intangible assets acquired was allocated to goodwill at year-end. There were no new business combinations in fiscal year 2015.

Also prior to fiscal year 2015, WHHS accounted for goodwill under the guidance of Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2012-02, *Intangibles, Goodwill and Other*, with impairment testing performed at least annually. For fiscal year 2015, WHHS adopted the provisions of GASB 69 as they relate to the amortization of goodwill acquired in a business combination. 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.

GASB 69 was adopted on a prospective basis, consistent with the requirements of the guidance. The impact of the adoption was the addition of $672,000 in goodwill amortization expense for fiscal year 2015. This amount is included in *Other operating expenses*. Within the Statements of Net Position, for years ended after June 30, 2014, unamortized goodwill is reflected in *Deferred Outflows of Resources – goodwill*; for years ended prior to June 30, 2015, unamortized goodwill is reflected in *Other assets – goodwill*.

Risk Management

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

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 is a member of and participates in a group professional liability self-insurance program through BETA Healthcare Group (BETA), a joint powers authority whose members are district hospitals and county facilities in California. Amounts paid by each member to BETA represent actuarially determined assessments of claims payable, and estimated incurred, but not reported, claims that are adjusted periodically based on the claims experience for each member at each hospital.

Claims in excess of specified amounts are the responsibility of individual program participants. The District has coverage on an occurrence basis up to $40 million per year for professional and general liability through BETA.

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

Net Position

District

Net position is composed of the following categories:

Unrestricted

Unrestricted net position that is neither restricted nor invested in capital assets, net of related debt. 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 2015, the Washington Outpatient Surgery Center earned operating income of approximately $2.0 million. The District distributed a portion of the minority interest's share of 2015 earnings in fiscal year 2015.

Invested in Capital Assets, Net of Related Debt

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

Restricted

The District classifies net 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, 2014 and 2015.

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.

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 26 percent and 28 percent of the District's net patient service revenues for the fiscal years ended June 30, 2015 and 2014, respectively. Medicare, Medi-Cal and Blue Cross Prudent Buyer are the only payors that represent more than 10 percent of the District's net patient accounts receivable as of June 30, 2015. The District maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

As of June 30, 2014, the District was owed approximately $5.0 million, net of contractual allowances, in patient accounts receivable from Alameda Alliance for Health (the Alliance), the Alameda County Medi-Cal HMO, for providing healthcare services to their members. The Alliance had been placed into receivership due to ongoing operational issues at the Alliance, principally due to a failed computer conversion at the Alliance. As a result, management had estimated an additional reserve of approximately $1.0 million (remaining net receivable was approximately $3.9 million). As of June 30, 2015, the Alliance's computer problems have been resolved and claims are being paid in a routine and consistent manner. Gross days in accounts receivable from the Alliance have dropped from 18.1 to 5.7 at June 30, 2014 and June 30, 2015 respectively, and the net receivable due from the Alliance (before any additional reserves) has dropped from $5.0 million at June 30, 2014 to $3.1 million at June 30, 2015. Based on the improvement in the Alliance's payment performance, the District released the additional $1.0 million reserve in fiscal year 2015.

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 120 donor pledges, with the largest individual pledge representing approximately 76.5 percent of the total, as of June 30, 2015. The Foundation had 113 donor pledges, with the largest individual pledge representing approximately 70 percent of the total, as of June 30, 2014.

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.

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 $10.4 million in fiscal year 2015 and approximately $3.6 million in fiscal year 2014.

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 for fiscal year 2014 also include approximately $2.7 million in incentive funding, from Medi-Cal and Medicare, based on demonstrated Meaningful Use of an Electronic Health Record (Meaningful Use). No Meaningful Use revenues were recognized in fiscal year 2015.

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 2015 and 2014.

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

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

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

New Accounting Pronouncements
District
In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for financial reporting periods beginning after December 15, 2013. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. The Statement includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without consideration. The District's adoption of this standard resulted in the recognition of $672,000 in goodwill amortization expense for fiscal year 2015. This amount is included in *Other operating expenses*. Within the Statements of Net Position, for years ended after June 30, 2014, unamortized goodwill is reflected in *Deferred Outflows of Resources – goodwill*; for years ended prior to June 30, 2015, unamortized goodwill is reflected in *Other assets – goodwill*.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for financial reporting periods beginning after June 15, 2015, with earlier adoption encouraged. This Statement provides guidance for determining a fair value measurement for financial reporting purposes, for applying fair value to certain investments, and for disclosures related to all fair value measurements. Management is currently evaluating the effect of this standard on the financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for fiscal years beginning after June 15, 2015. Management is currently evaluating the effect of this standard on the financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This standard establishes new accounting and financial reporting requirement for OPEB plans. As the District does not issue stand-alone financial statements for its OPEB plan, this guidance is not applicable for the 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, 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. Management is currently evaluating the effect of this standard on the financial statements.

Also in June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statements for periods beginning after June 15, 2015, with earlier adoption encouraged. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The District adopted this standard for fiscal year 2015; adoption of this standard did not have an impact on the District's financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for financial statements for periods beginning after December 15, 2015, 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. Management is currently evaluating the effect of this standard on the financial statements.

Foundation

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

2. Patient Revenues

Patient revenues consist of the following:

	2015	2014
Gross patient charges		
Routine inpatient services	$ 387,575,000	$ 382,244,000
Ancillary inpatient services	1,090,882,000	1,104,094,000
Outpatient services	652,115,000	607,522,000
	2,130,572,000	2,093,860,000
Less: Charity care	(8,160,000)	(16,406,000)
Gross patient service revenues	2,122,412,000	2,077,454,000
Deductions from gross patient service revenues		
Contractual allowances for statutory and negotiated rates	1,615,383,000	1,567,836,000
Provision for doubtful accounts	31,290,000	63,716,000
	1,646,673,000	1,631,552,000
Net patient service revenues	$ 475,739,000	$ 445,902,000

The District has agreements with third-party payors that provide for payments to the District at amounts that differ from established rates. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District also receives Medicare Disproportionate Share (DSH) reimbursements for services provided to a disproportionate percentage of low-income patients. The Medicare program pays hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the District is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory are paid based upon prospectively determined fee schedules. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been audited for all fiscal years through June 30, 2012. The 2006 cost report has not yet been finalized by the Medicare fiscal intermediary because a required ratio for the federal fiscal year ending September 2005 has not yet been finalized by CMS. All other cost reports through 2012 have been finalized.

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.

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 previous Hospital Fee Program expired December 31, 2013. 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 year 2014, the District recognized $0.3 million under the Hospital Fee Program which was reported as net patient service revenues. No amounts were recognized under the Hospital Fee Program for fiscal year 2015.

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 2015 and 2014, the District recognized amounts under the IGT Program of $1.8 million and $2.1 million, respectively, which have been reported as net patient service revenues.

State of California Assembly Bill 915, *Public Hospital Outpatient Services Supplemental Reimbursement Program*, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's Certified Public Expenditures ("CPE"), which are matched with federal Medicaid funds. For fiscal years ended 2015 and 2014, the District recorded net patient service revenues of $0.1 million and $1.1 million, respectively, related to these payments.

The State of California's Section 1115 Medicaid Waiver Proposal and Demonstration Project, intended as a transition to Federal health care reforms, included the Low Income Health Program (LIHP). Administered by the California Department of Healthcare Services (DHCS), in coordination with the Centers for Medicare and Medicaid Services (CMS), the LIHP provided for access to supplemental Federal funding for certain health care services provided to eligible persons.
The LIHP operated from July 1, 2011 through December 31, 2013. As a qualified governmental agency, the District submitted claims to the LIHP and recognized related revenues in fiscal year 2014 of $3.4 million. No LIHP revenues were recognized in fiscal year 2015.

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

	2015	2014
Medicare and Medicare HMO	$ 1,079,824,000	$ 1,111,636,000
Medi-Cal and Medi-Cal HMO	405,699,000	367,662,000
Commercial PPO, HMO and others	613,182,000	547,073,000
Private pay	31,867,000	67,489,000
	$ 2,130,572,000	$ 2,093,860,000

3. Charity Care

The District maintains records to identify and monitor the level of direct charity care it provides. For fiscal year 2015 and 2014, net patient service revenues exclude charges foregone for charity care services and supplies of approximately $8.2 million and $16.5 million, respectively. In addition, the estimated cost in excess of reimbursement (unaudited) for indigent patients under publicly-sponsored programs was $51 million and $57 million, respectively.

4. Contributions Receivable

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

	2015	2014
Critical Care Pavilion	$ 1,148,000	$ 1,211,000
Center for Joint Replacement	37,000	101,000
Other	122,000	125,000
Contributions receivable before unamortized discount and allowance for uncollectibles	1,307,000	1,437,000
Less:		
Allowance for uncollectibles	(59,000)	(58,000)
Unamortized net present value adjustment	(65,000)	(72,000)
Net contributions receivable	$ 1,183,000	$ 1,307,000
Amounts due in		
Less than 1 year	$ 122,000	$ 125,000
1 to 3 years	1,061,000	1,182,000
	$ 1,183,000	$ 1,307,000

The value of contributions receivable represents the Foundation's expected future cash flows from each pledge. For fiscal years 2015 and 2014, 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.

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:

	2015	2014
Critical Care Pavilion	$ 4,631,000	$ 4,610,000
Health-related services	1,021,000	1,242,000
Pathways Hospice	326,000	331,000
Emergency room and critical care	306,000	306,000
Special Care Nursery	222,000	-
Center for Joint Replacement	186,000	141,000
Surgical services	138,000	50,000
Education and professional recognition	116,000	104,000
Other activities	23,000	33,000
	$ 6,969,000	$ 6,817,000

6. Related-Party Transactions

The District held $4,456,000 and $4,445,000 as of June 30, 2015 and 2014, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated $168,000 and $852,000 to the District for fiscal years 2015 and 2014, respectively.

7. Long-Term Investment and Restricted Funds

District
As of June 30, 2015 and 2014, investment and restricted funds, at fair value, have been set aside as follows:

	2015	2014
Board-designated funds		
Funded depreciation	$ 194,755,000	$ 176,146,000
Workers' compensation fund	11,648,000	11,501,000
Funds held by trustee under bond indenture	142,806,000	163,084,000
Restricted funds	2,801,000	2,801,000
Total funds	352,010,000	353,532,000
Short-term investments – required for current liabilities	(19,335,000)	(17,858,000)
Total long-term investment and restricted funds	$ 332,675,000	$ 335,674,000

The District's investment policy permits the following investments:

	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Authorized investment type			
U.S. Treasury obligations	15 years	100%	none
U.S. Government Agency securities	15 years	100%	none
State of California or local agency obligations	15 years	100%	none
LAIF (State Pool Demand Deposits)	N/A	As permitted by law	$50,000,000
Corporate bonds	10 years *	30%	none
Certificates of deposit	1 year	20%	none
Repurchase agreements	1 year	N/A	$4,000,000
Bankers acceptances	270 days	40%	none
Commercial paper	180 days	30%	none
Mutual funds	N/A	15%	none

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

As of June 30, 2015 the District had the following investments with maturities as follows:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1-5	6-10	More than 10
Investment type					
U.S. Treasuries	$ 30,889,000	$ -	$ 30,889,000	$ -	$ -
U.S. Government Agencies	16,212,000	4,137,000	7,268,000	4,161,000	646,000
Corporate bonds	57,786,000	13,088,000	39,258,000	1,059,000	4,381,000
LAIF (State Pool Demand Deposits)	169,712,000	169,712,000	-	-	-
Money market and mutual funds	77,411,000	77,411,000	-	-	-
Total investments	$ 352,010,000	$ 264,348,000	$ 77,415,000	$ 5,220,000	$ 5,027,000

As of June 30, 2014 the District had the following investments with maturities as follows:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1-5	6-10	More than 10
Investment type					
U.S. Treasuries	$ 31,093,000	$ -	$ 31,093,000	$ -	$ -
U.S. Government Agencies	16,882,000	301,000	10,532,000	5,219,000	830,000
Corporate bonds	71,442,000	4,747,000	58,532,000	1,062,000	7,101,000
LAIF (State Pool Demand Deposits)	167,788,000	167,788,000	-	-	-
Money market and mutual funds	66,327,000	66,327,000	-	-	-
Total investments	$ 353,532,000	$ 239,163,000	$ 100,157,000	$ 6,281,000	$ 7,931,000

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy, 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, 2015 are rated as follows:

	Fair Value	Ratings
Investment type		
U.S. Treasuries	$ 30,889,000	Not rated
U.S. Government Agencies	16,212,000	Not rated
Corporate bonds	57,786,000	See below
Local Agency Investment Fund	169,712,000	Not rated
Money market and mutual funds	77,411,000	Not rated
	$ 352,010,000	

	Amount
Corporate bonds rating	
AAA	$ 7,056,000
AA+	2,867,000
AA	3,391,000
AA-	4,248,000
A+	7,861,000
A	14,777,000
A-	17,586,000
	$ 57,786,000

All of the District's investments, including assets held by trustees, are Category 1 investments, which are defined by GASB Statement No. 31 as investments that are insured or registered and are held by the institution, or its agent, in the institution's name. No investment in any one issuer represents 5 percent or more of the District's total investments other than U.S. Treasury and Federal National Mortgage Association obligations.

Foundation

Investments as of June 30, 2015 and 2014, at fair value are summarized below:

	2015	2014
Money market and certificates of deposit	$ 528,000	$ 526,000
Equity mutual fund	986,000	919,000
Local Agency Investment Fund held by District on behalf of Foundation	4,456,000	4,445,000
	$ 5,970,000	$ 5,890,000

The Foundation measures and records its investments at fair value in accordance with accounting standards which establish a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. The Foundation's investments were considered Level 1, and as such, fair value was based on quoted prices in active markets for identical assets.

8. Capital Assets

Capital assets activity for fiscal year 2015 consisted of the following:

	Beginning Balance June 30, 2014	Increases	Decreases	Ending Balance June 30, 2015
Capital assets, not being depreciated				
Land	$ 10,482,000	$ -	$ -	$ 10,482,000
Construction in progress	61,469,000	46,607,000	(14,294,000)	93,782,000
Total capital assets not being depreciated	71,951,000	46,607,000	(14,294,000)	104,264,000
Capital assets being depreciated				
Land improvements	11,380,000	15,000	-	11,395,000
Buildings	320,254,000	5,822,000	(10,000)	326,066,000
Fixed and moveable equipment	324,726,000	10,155,000	(149,000)	334,732,000
Total capital assets being depreciated	656,360,000	15,992,000	(159,000)	672,193,000
Less: Accumulated depreciation				
Land improvements	(6,929,000)	(400,000)	-	(7,329,000)
Buildings	(129,093,000)	(12,203,000)	5,000	(141,291,000)
Fixed and movable equipment	(177,283,000)	(21,789,000)	95,000	(198,977,000)
Total accumulated depreciation	(313,305,000)	(34,392,000)	100,000	(347,597,000)
Total capital assets being depreciated, net	343,055,000	(18,400,000)	(59,000)	324,596,000
Total capital assets, net	$ 415,006,000	$ 28,207,000	$ (14,353,000)	$ 428,860,000

At June 30, 2015, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately $214 million.

Capital assets activity for fiscal year 2014 consisted of the following:

	Beginning Balance June 30, 2013	Increases	Decreases	Ending Balance June 30, 2014
Capital assets, not being depreciated				
Land	$ 10,482,000	$ -	$ -	$ 10,482,000
Construction in progress	101,707,000	41,371,000	(81,609,000)	61,469,000
Total capital assets not being depreciated	112,189,000	41,371,000	(81,609,000)	71,951,000
Capital assets being depreciated				
Land improvements	11,228,000	170,000	(18,000)	11,380,000
Buildings	308,537,000	14,580,000	(2,863,000)	320,254,000
Fixed and moveable equipment	256,524,000	68,676,000	(474,000)	324,726,000
Total capital assets being depreciated	576,289,000	83,426,000	(3,355,000)	656,360,000
Less: Accumulated depreciation				
Land improvements	(6,532,000)	(415,000)	18,000	(6,929,000)
Buildings	(118,347,000)	(13,509,000)	2,763,000	(129,093,000)
Fixed and movable equipment	(156,379,000)	(21,173,000)	269,000	(177,283,000)
Total accumulated depreciation	(281,258,000)	(35,097,000)	3,050,000	(313,305,000)
Total capital assets being depreciated, net	295,031,000	48,329,000	(305,000)	343,055,000
Total capital assets, net	$ 407,220,000	$ 89,700,000	$ (81,914,000)	$ 415,006,000

At June 30, 2014, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately $21.6 million.

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

	2015	2014
Change in accumulated depreciation		
Operating depreciation expense	$ 33,971,000	$ 34,665,000
Non-operating depreciation expense	421,000	432,000
Disposal of fixed assets	(100,000)	(3,050,000)
Total increase in accumulated depreciation	$ 34,292,000	$ 32,047,000

9. Long-Term Debt

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

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

The District issued revenue bonds in 2007 to provide funds for the construction of a new building that 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 Union Bank of California (Trustee), as defined in the Series indentures.

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

The District issued revenue bonds in December 2009 to provide funds for the construction of a new building that 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 Union Bank of California (Trustee), as defined in the Series indentures.

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

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

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, 2015 and 2014, maintaining debt service coverage ratios of 4.6 to 1.0 and 2.3 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

In fiscal year 2012, the Washington Outpatient Surgery Center (WOSC) borrowed $995,000 for working capital needs, in the form of a 5-year Non-Disclosable Loan. The loan was payable in monthly installments of $18,106 with an interest rate of 3.51 percent. WOSC elected to accelerate the repayment of the loan, and the final amount due was paid in 2015.

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.

In fiscal year 2015, WOSC entered into a 3-year lease agreement for surgical equipment. Amounts related to this obligation have been capitalized and are included in current maturities of long-term debt and long-term debt, as appropriate.

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2015 is as follows:

	Beginning Balance, June 30, 2014	Additions	Amortization/ Other	Repayments	Ending Balance, June 30, 2015	Due Within One Year
Bonds payable						
2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually	$ 40,500,000	$ -	$ -	$ -	$ 40,500,000	$ -
Plus: Issuance premiums	840,000	-	(44,000)	-	796,000	-
Total 2013A Series Revenue Bonds Payable	41,340,000	-	(44,000)	-	41,296,000	-
2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually	105,000,000	-	-	-	105,000,000	-
Plus: Issuance premiums	3,108,000	-	(193,000)	-	2,915,000	-
Total 2013B Series Revenue Bonds Payable	108,108,000	-	(193,000)	-	107,915,000	-
2010 Series Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually	58,450,000	-	-	(1,205,000)	57,245,000	1,270,000
Less: Issuance discounts	(881,000)	-	(20,000)	-	(901,000)	-
Total 2010 Series Revenue Bonds Payable	57,569,000	-	(20,000)	(1,205,000)	56,344,000	1,270,000
2009 Series Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually	52,440,000	-	-	(930,000)	51,510,000	975,000
Less: Issuance discounts	(785,000)	-	50,000	-	(735,000)	-
Total 2009 Series Revenue Bonds Payable	51,655,000	-	50,000	(930,000)	50,775,000	975,000
2009 General Obligation Bonds, principal and interest (at 4.25% to 6.50%) payable semiannually	16,125,000	-	-	(4,300,000)	11,825,000	10,000
Plus: Issuance premiums	(6,000)	-	(9,000)	-	(15,000)	-
Total 2009 General Obligation Bonds Payable	16,119,000	-	(9,000)	(4,300,000)	11,810,000	10,000
2007 Series Revenue Bonds, principal and interest (at 5.00%) payable semiannually	74,665,000	-	-	(975,000)	73,690,000	1,025,000
Less: Issuance discounts	(1,052,000)	-	104,000	-	(948,000)	-
Total 2007 Series Revenue Bonds Payable	73,613,000	-	104,000	(975,000)	72,742,000	1,025,000
2006 General Obligation Bonds principal and interest (at 3.60% to 5.00%) payable semiannually	38,285,000	-	-	(1,035,000)	37,250,000	1,070,000
Plus: Issuance premiums	186,000	-	(32,000)	-	154,000	-
Total 2006 General Obligation Bonds Payable	38,471,000	-	(32,000)	(1,035,000)	37,404,000	1,070,000
1999 Series Revenue Bonds, principal and interest (at 5.00% to 5.25%) payable semiannually	35,050,000	-	-	(1,470,000)	33,580,000	1,545,000
Less: Issuance discounts	(203,000)	-	23,000	-	(180,000)	-
Total 1999 Series Revenue bonds payable	34,847,000	-	23,000	(1,470,000)	33,400,000	1,545,000
Loans Payable						
2013 ADP Financing principal and interest (at 5.32%) payable monthly	377,000	-	-	(95,000)	282,000	100,000
Total 2013 ADP Loan Payable	377,000	-	-	(95,000)	282,000	100,000
2012 WOSC Loan Payable principal and interest (at 3.51%) payable monthly	260,000	-	-	(260,000)	-	-
Total 2012 WOSC Loan Payable	260,000	-	-	(260,000)	-	-
Capital Lease Obligation						
2015 WOSC Stryker Capital Lease principal and interest (at 3.49%) payable monthly	-	262,000	-	(21,000)	241,000	86,000
Total 2015 WOSC Capital Lease Obligation	-	262,000	-	(21,000)	241,000	86,000
Total long-term debt payable	$ 422,359,000	$ 262,000	$ (121,000)	$ (10,291,000)	$ 412,209,000	$ 6,081,000

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2014 is as follows:

	Beginning Balance, June 30, 2013	Additions	Amortization/ Other	Repayments	Ending Balance, June 30, 2014	Due Within One Year
Bonds payable						
2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually	$ -	$ 40,500,000	$ -	$ -	$ 40,500,000	$ -
Plus: Issuance premiums	-	867,000	(27,000)	-	840,000	-
Total 2013A Series Revenue Bonds Payable	-	41,367,000	(27,000)	-	41,340,000	-
2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually	-	105,000,000	-	-	105,000,000	-
Plus: Issuance premiums	-	3,226,000	(118,000)	-	3,108,000	-
Total 2013B Series Revenue Bonds Payable	-	108,226,000	(118,000)	-	108,108,000	-
2010 Series Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually	59,610,000	-	-	(1,160,000)	58,450,000	1,205,000
Less: Issuance discounts	(834,000)	-	(47,000)	-	(881,000)	-
Total 2010 Series Revenue Bonds Payable	58,776,000	-	(47,000)	(1,160,000)	57,569,000	1,205,000
2009 Series Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually	53,330,000	-	-	(890,000)	52,440,000	930,000
Less: Issuance discounts	(829,000)	-	44,000	-	(785,000)	-
Total 2009 Series Revenue Bonds Payable	52,501,000	-	44,000	(890,000)	51,655,000	930,000
2009 General Obligation Bonds principal and interest (at 4.25% to 6.50%) payable semiannually	18,710,000	-	-	(2,585,000)	16,125,000	4,300,000
Plus: Issuance premiums	115,000	-	(121,000)	-	(6,000)	-
Total 2009 General Obligation Bonds Payable	18,825,000	-	(121,000)	(2,585,000)	16,119,000	4,300,000
2007 Series Revenue Bonds, principal and interest (at 5.00%) payable semiannually	75,595,000	-	-	(930,000)	74,665,000	975,000
Less: Issuance discounts	(1,163,000)	-	111,000	-	(1,052,000)	-
Total 2007 Series Revenue Bonds Payable	74,432,000	-	111,000	(930,000)	73,613,000	975,000
2006 General Obligation Bonds principal and interest (at 3.60% to 5.00%) payable semiannually	41,265,000	-	-	(2,980,000)	38,285,000	1,035,000
Plus: Issuance premiums	221,000	-	(35,000)	-	186,000	-
Total 2006 General Obligation Bonds Payable	41,486,000	-	(35,000)	(2,980,000)	38,471,000	1,035,000
1999 Series Revenue Bonds, principal and interest (at 5.00% to 5.25%) payable semiannually	36,450,000	-	-	(1,400,000)	35,050,000	1,470,000
Less: Issuance discounts	(227,000)	-	24,000	-	(203,000)	-
Total 1999 Series Revenue bonds payable	36,223,000	-	24,000	(1,400,000)	34,847,000	1,470,000
Loans payable						
2013 ADP Financing principal and interest (at 5.32%) payable monthly	244,000	228,000	-	(95,000)	377,000	95,000
Total 2013 ADP Loan Payable	244,000	228,000	-	(95,000)	377,000	95,000
2012 WOSC Loan Payable principal and interest (at 3.51%) payable monthly	789,000	-	-	(529,000)	260,000	212,000
Total 2012 WOSC Loan Payable	789,000	-	-	(529,000)	260,000	212,000
Total long-term debt payable	$ 283,276,000	$ 149,821,000	$ (169,000)	$ (10,569,000)	$ 422,359,000	$ 10,222,000

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

	Original Issue Amount	Maturity Date	Effective Interest Rate 2015	Effective Interest Rate 2014
Bond issue				
2013A General Obligation Bonds	$ 40,500,000	8/1/2043	4.85%	4.73%
2013B General Obligation Bonds	105,000,000	8/1/2043	4.85%	4.73%
2010 Series Revenue Bonds	60,725,000	7/1/2038	5.33%	5.28%
2009 General Obligation Bonds	25,000,000	8/1/2039	5.60%	5.15%
2009 Series Revenue Bonds	55,000,000	7/1/2039	6.21%	6.18%
2007 Series Revenue Bonds	79,645,000	7/1/2037	5.21%	5.22%
2006 General Obligation Bonds	60,000,000	8/1/2036	4.42%	4.37%
1999 Series Revenue Bonds	49,725,000	7/1/2029	5.25%	5.25%

The long-term debt payment requirements as of June 30, 2015, excluding amortization of discounts and premiums on bonds payable, are as follows:

	Total Long-Term Debt Principal	Total Long-Term Debt Interest
June 30		
2016	$ 6,081,000	$ 21,260,000
2017	6,369,000	20,958,000
2018	6,619,000	20,636,000
2019	6,810,000	20,299,000
2020	8,150,000	19,926,000
2021 - 2025	47,615,000	92,749,000
2026 - 2030	55,225,000	80,025,000
2031 - 2035	85,875,000	62,177,000
2036 - 2040	111,430,000	34,525,000
2041 - 2045	76,950,000	8,248,000
	$ 411,124,000	$ 380,803,000

Components of interest expense include the following:

	2015	2014
Total interest cost	$ 21,314,000	$ 18,920,000
Capitalized interest expense	(10,605,000)	(8,378,000)
Net interest expense	$ 10,709,000	$ 10,542,000
Capitalized investment income	$ 333,000	$ 126,000

10. Short-Term Debt

During the fiscal years 2015 and 2014, Washington Hospital Outpatient Surgery Center had a short-term $1.0 million revolving line of credit available. The line of credit was renewed in September 2015. 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, 2016.

11. Employee Benefit Plans

Defined Benefit Retirement Plan

The District maintains a defined benefit 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.

For the January 1, 2015 valuation date, the District updated the mortality assumptions for both healthy and disabled participants to use tables that were finalized in October 2014. The impact of the overall increase in life expectancy reflected in these tables was to increase the net pension obligation as of June 30, 2015 by $14.5 million.

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:

	2015	2014
Active	1,304	1,349
Vested terminated	664	632
Retirees and beneficiaries	770	713
Total participants	2,738	2,694

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

	2015	2014
Pension cost		
Service cost	$ 5,434,000	$ 5,456,000
Employee Contributions	(139,000)	-
Interest	21,585,000	20,223,000
Expected return on plan assets	(16,231,000)	(7,040,000)
Administrative expenses	65,000	-
Recognition of deferred amounts	1,178,000	(3,275,000)
Plan change	-	-
Total pension cost	$ 11,892,000	$ 15,364,000
Deferred inflows of resources		
Remaining balance at beginning of year:		
Established July 1, 2012		
Difference between expected and actual experience	$ (2,780,000)	$ (3,976,000)
Difference between expected and actual earnings on plan investments	(3,406,000)	(4,542,000)
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	(9,792,000)	(12,240,000)
	(15,978,000)	(20,758,000)
Amount recognized in current year pension cost:		
Established July 1, 2012		
Difference between expected and actual experience	(1,196,000)	(1,196,000)
Difference between expected and actual earnings on plan investments	(1,135,000)	(1,136,000)
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	(2,448,000)	(2,448,000)
	(4,779,000)	(4,780,000)
Deferred inflows of resources at end of year	$ (11,199,000)	$ (15,978,000)
Deferred outflows of resources		
Remaining balance at beginning of year:		
Established July 1, 2012		
Change in assumptions	$ 1,154,000	$ 1,651,000
Established July 1, 2013		
Difference between expected and actual experience	3,464,000	4,395,000
Change in assumptions	285,000	362,000
Established July 1, 2014		
Difference between expected and actual experience	578,000	-
Difference between expected and actual earnings on plan investments	5,426,000	-
Change in assumptions	14,522,000	-
Deferred outflows of resources at the beginning of the year	25,429,000	6,408,000
Amount recognized in current year pension cost:		
Established July 1, 2012		
Change in assumptions	497,000	497,000
Established July 1, 2013		
Difference between expected and actual experience	931,000	931,000
Change in assumptions	77,000	77,000
Established July 1, 2014		
Difference between expected and actual experience	129,000	-
Difference between expected and actual earnings on plan investments	1,085,000	-
Change in assumptions	3,238,000	-
	5,957,000	1,505,000
Amounts of deferred outflows to be recognized in pension assets for future years		
Employer contributions made after measurement date		
2015 and 2014, respectively	5,000,000	18,500,000
Deferred outflows of resources at end of year	$ 24,472,000	$ 23,403,000
Amounts of deferred inflows to be recognized in pension cost for future years		
2015	$ -	$ (4,779,000)
2016	(4,780,000)	(4,780,000)
2017	(3,970,000)	(3,970,000)
2018	(2,449,000)	(2,449,000)
2019	-	-
Thereafter	-	-
	$ (11,199,000)	$ (15,978,000)
Amounts of deferred outflows to be recognized in pension cost for future years		
2015	$ -	$ 1,505,000
2016	5,957,000	1,505,000
2017	5,620,000	1,168,000
2018	5,177,000	725,000
2019	2,718,000	-
Thereafter	-	-
	$ 19,472,000	$ 4,903,000

The following table summarizes changes in net pension liability from July 1, 2013 to June 30, 2015:

	Actuarially Determined Contribution	Actual Contribution
Fiscal Year Ended		
2006	$ 5,404,000	$ 6,296,000
2007	8,282,000	8,282,000
2008	9,407,000	9,500,000
2009	10,004,000	8,500,000
2010	12,594,000	- [1]
2011	15,683,000	- [1]
2012	18,344,000	- [1]
2013	19,800,000	- [1]
2014	18,500,000	134,026,000 [1]
2015	18,000,000	22,700,000
	$ 136,018,000	$ 189,304,000

[1] For the years 2010 to 2013, in addition to the actual contributions reported above, the District Board set aside the following amounts in accounts designated for future pension funding:

2010	$ 22,000,000
2011	22,000,000
2012	19,000,000
2013	21,800,000
	$ 84,800,000

All of the amounts in the set aside funds, including accumulated income, were contributed to the Plan in December 2013 and are included in the actual contributions reported above for the year ended June 30, 2014.

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2013, June 30, 2014 and June 30, 2015:

Valuation date	January 1, 2013, January 1, 2014, January 1, 2015
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, 2013, January 1, 2014
Mortality Table for Healthy Participants	Internal Revenue Code Section 430(h)(3)(A), using static tables and separate mortality rates for annuitants and non-annuitants
Mortality Table for Disabled Participants	RP-2000 Disabled Mortality Tables for males and females

Valuation date	January 1, 2015
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, 2013 to changes in the Discount Rate, with no other changes -	
1 percent decrease (6.5%)	$ 209,066,000
Current Discount Rate (7.5%)	175,770,000
1 percent increase (8.5%)	147,760,000
Sensitivity of Net Pension Liability at January 1, 2014 to changes in the Discount Rate, with no other changes -	
1 percent decrease (6.5%)	$ 106,951,000
Current Discount Rate (7.5%)	71,400,000
1 percent increase (8.5%)	41,999,000
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

The District also has a Deferred Compensation Plan available to employees. Generally, any employee is eligible and voluntarily enters into an agreement with the District to defer current wages at amounts limited by federal law. Effective January 1, 2010 the District 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 these agreements, the District purchases annuity contracts for various investments. All investment earnings, including market value appreciation and depreciation, are set aside in trusts for the benefit of the participants.

Matching contributions made by the District in fiscal years 2015 and 2014 were as follows:

Contribution Year		Amount	Employee Deductions Being Matched
2015	$	1,820,000	Calendar year 2014
2014		1,899,000	Calendar year 2013

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

Other Post-Employment Benefits (OPEB) are funded entirely by the District on a pay-as-you-go basis. For fiscal years 2015 and 2014, the District contributed $1.4 million and $1.3 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 plan, and the changes in the District's OPEB obligation.

	2015	2014
Annual required contribution	$ 5,066,000	$ 5,006,000
Interest on net OPEB obligation	1,637,000	1,534,000
Adjustment to annual required contribution	(3,265,000)	(3,059,000)
Annual OPEB cost	3,438,000	3,481,000
Contributions made	1,381,000	1,307,000
Increase in net OPEB Obligation	2,057,000	2,174,000
Net OPEB obligation		
Beginning of year	34,466,000	32,292,000
End of year	$ 36,523,000	$ 34,466,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the two preceding years were as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended			
2013	$ 3,260,000	27.82 %	$ 32,292,000
2014	3,481,000	37.56 %	34,466,000
2015	3,438,000	40.17 %	36,523,000

As of June 30, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $41.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of $41.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $136.9 million, and the ratio of the UAAL to the covered payroll was 30.0 percent.

In the June 30, 2015 and June 30, 2014 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 2019. 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 year 2015, the District used the same updated mortality tables that were used for the defined benefit retirement plan. The combined impact of the change in mortality assumptions for healthy and disabled participants was an increase of $3.2 million in actuarial accrued liability as of June 30, 2015.

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

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

12. 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
General		
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
Construction-related		
Owner Controlled Insurance Program (primary)	2,000,000	500,000
Contractor/subcontractor workers' compensation	Statutory	1,000,000
Owner Controlled Insurance Program (excess)	100,000,000	-
Builders Risk property:		
All Risk	235,000,000	50,000
Flood	100,000,000	50,000
Earthquake	25,000,000	50,000
Owner's Protective Professional Indemnity	15,000,000	250,000

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

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

For the fiscal years 2015 and 2014, an actuarial estimate was prepared for the self-funded health, dental and vision IBNR claims liability.

13. 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, 2015 and 2014, the approximate liability for unpaid compensated absences was $14.6 million and $14.4 million, respectively.

14. Commitments and Contingencies

Lease Commitments

DEVCO has operating leases for medical clinic facilities. Rental expense under these leases for fiscal years 2015 and 2014 was $3.0 million and $4.1 million, respectively.

Future minimum rental commitments for fiscal years ended subsequent to June 30, 2015 are as follows:

2016	$ 2,853,000
2017	2,164,000
2018	1,809,000
2019	1,630,000
2020	1,217,000
Thereafter	737,000
	$ 10,410,000

Litigation

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

Regulatory Environment

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

Required Supplementary Pension and Post-Employment Benefit Information

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:

Fiscal Year Ended	Actuarially Determined Contribution	Actual Contribution
2006	$ 5,404,000	$ 6,296,000
2007	8,282,000	8,282,000
2008	9,407,000	9,500,000
2009	10,004,000	8,500,000
2010	12,594,000	- [1]
2011	15,683,000	- [1]
2012	18,344,000	- [1]
2013	19,800,000	- [1]
2014	18,500,000	134,026,000 [1]
2015	18,000,000	22,700,000
	$ 136,018,000	$ 189,304,000

[1] 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	21,800,000
	$ 84,800,000

All of the amounts in the set aside funds, including accumulated income, were contributed to the Plan in December 2013 and are included in the actual contributions reported above for the fiscal year ended June 30, 2014.

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

The following table summarizes changes in net pension liability from July 1, 2013 to June 30, 2015:

	2015	2014
Total pension liability		
Service cost	$ 5,434,000	$ 5,456,000
Interest	21,585,000	20,223,000
Change in plan provisions	-	-
Difference between expected and actual experience	578,000	4,395,000
Change in assumptions	14,522,000	362,000
Benefit payments	(13,762,000)	(11,483,000)
Net change in total pension liability	28,357,000	18,953,000
Total pension liability (beginning of year)	295,348,000	276,395,000
Total pension liability (end of year)	323,705,000	295,348,000
Plan fiduciary net position		
Employer contributions	36,200,000	115,526,000
Employee contributions	139,000	-
Net investment income	10,805,000	19,342,000
Benefit payments	(13,762,000)	(11,483,000)
Administrative expense	(65,000)	(62,000)
Other	-	-
Net change in fiduciary net position	33,317,000	123,323,000
Fiduciary net position (beginning of year)	223,948,000	100,625,000
Fiduciary net position (end of year)	257,265,000	223,948,000
Net pension liability (end of year)	$ 66,440,000	$ 71,400,000
Fiduciary net position as percent of liability	79.5% [1]	75.8% [1]
Covered employee payroll	136,999,000	144,445,000
Net pension liability as percent of covered payroll	48.5% [2]	49.4% [2]
Deferred outflows of resources		
Employer contributions after measurement date	$ 5,000,000	$ 18,500,000
[1] Fiduciary net position as percent of liability including deferred outflows of resources	81.0%	82.1%
[2] Net pension liability as percent of covered payroll including deferred outflows of resources	44.8%	36.6%

Defined Benefit Post-Retirement Medical Plan

The following table summarizes the number of total plan participants:

	2015	2014
Active employees	1,297	1,347
Retirees receiving pre-65 $440 reimbursement	8	12
Retirees receiving pre-65 $440 COBRA benefits	52	44
Retirees receiving Part-B subsidy	330	305
Retirees eligible for Part-B subsidy only	17	30
Retirees receiving Part-D subsidy only	1	1
Total plan participants	1,705	1,739
Retirees also receiving Part-D subsidy benefit	87	83
Retirees also eligible for Part-D	27	35

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

	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)
Valuation Date						
July 1, 2013	$ -	$ 37,779,000	$ (37,779,000)	0.0 %	$ 145,216,000	(26.0)%
July 1, 2014	-	38,486,000	(38,486,000)	0.0 %	143,602,000	(26.8)%
July 1, 2015	-	41,057,000	(41,057,000)	0.0 %	136,917,000	(30.0)%

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

	Annual Required Contribution	Annual Contribution	Percentage Contributed
Fiscal Year			
July 1, 2012 - June 30, 2013	$ 4,674,000	$ 907,000	19.4%
July 1, 2013 - June 30, 2014	5,006,000	1,307,000	26.1%
July 1, 2014 - June 30, 2015	5,066,000	1,381,000	27.3%

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

	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))
Fiscal Year						
July 1, 2012 - June 30, 2013	$ 29,939,000	$ 4,674,000	$ 907,000	$ 3,260,000	$ 2,353,000	$ 32,292,000
July 1, 2013 - June 30, 2014	32,292,000	5,006,000	1,307,000	3,481,000	2,174,000	34,466,000
July 1, 2014 - June 30, 2015	34,466,000	5,066,000	1,381,000	3,438,000	2,057,000	36,523,000

The following table summarizes the actuarial assumptions used to determine the Defined Benefit Post-Retirement Medical Plan liabilities as of June 30, 2015:

Valuation date	June 30, 2015
Measurement date	June 30, 2015
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	2019