

**Washington Township
Health Care District**

**Financial Statements
June 30, 2014 and 2013**

Washington Township Health Care District
Index
June 30, 2014 and 2013

	Page(s)
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-18
Financial Statements	
Statements of Net Position	19
Statements of Revenues, Expenses, and Changes in Net Position	20
Statements of Cash Flows	21
Notes to Financial Statements	22-50
Required Supplemental Information	
Supplemental Pension and Post-Employment Benefit Information.....	51-54



Independent Auditor's Report

To the Board of Directors of
Washington Township Health Care District

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Washington Township Health Care District (the "District") which comprise the individual statements of net position as of June 30, 2014 and June 30, 2013, 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 opinions on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Washington Township Health Care District at June 30, 2014 and June 30, 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in the years ended June 30, 2014 and June 30, 2013, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB 27*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 2 through 16 and the supplemental pension and post-employment benefit information on page 51 to 55 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read "Priscilla Hulse Coopers LLP", is written over a faint, light-colored circular stamp.

San Francisco, California
November 6, 2014

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

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 2014

- In July 2013, the District implemented the Epic Electronic Health Record (EHR) system for the Washington Hospital Healthcare System (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 and the initial optimization effort was substantially completed by December 2013. The District incurred additional non-recurring operating expenses in the fiscal year ending June 30, 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 the year ended June 30, 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.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

- 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.
- Total assets decreased \$0.1 million, from \$872.8 million at June 30, 2013 to \$872.7 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 MediCal 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 \$24.0 million, from \$588.0 million at June 30, 2013 to \$612.0 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 \$12.9 million, from \$98.5 million to \$85.6 million, and long-term liabilities increased \$36.9 million, from \$489.5 million to \$526.4 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.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

District Financial Highlights for Fiscal Year 2013

- Total assets increased \$23.1 million, from \$849.7 million at June 30, 2012 to \$872.8 million at June 30, 2013. Total cash and investments decreased by \$10.7 million, from \$380.9 million to \$370.2 million, while net patient accounts receivable of \$67.6 million at June 30, 2013 increased by \$0.1 million from \$67.5 million at June 30, 2012. Days of gross revenue in accounts receivable were 58 at June 30, 2013 as compared to 60 at June 30, 2012. Net capital assets increased \$41.3 million, from \$365.9 million to \$407.2 million.
- Total liabilities increased \$149.0 million, from \$439.0 million at June 30, 2012 to \$588.0 million at June 30, 2013. Current liabilities increased \$12.6 million, from \$85.9 million to \$98.5 million, and long-term liabilities increased \$136.5 million, from \$353.0 million to \$489.5 million. The primary component of this increase was the recognition of an additional \$133.0 million in pension-related obligations as of July 1, 2012, under GASB 68, which contributed to the \$175.8 million net pension liability as of June 30, 2013.
- Deferred inflows of resources were \$0 at June 30, 2012 and \$8.5 million at June 30, 2013, again due to the adoption of GASB 68.
- Total net position decreased by \$132.8 million from \$410.8 million at June 30, 2012 to \$278.0 million at June 30, 2013. The combined impact of the adoption of GASB 65 and 68 was a reduction to net position of 135.5 million. Excluding this impact, net position increased by \$2.7 million from June 30, 2012 to June 20, 2013.

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.

Foundation Financial Highlights for Fiscal Year 2013

- Total assets of \$7.3 million at June 30, 2013 increased \$0.1 million from \$7.2 million at June 30, 2012. Total cash and investments increased \$0.3 million, from \$5.0 million to \$5.3 million, while net contributions receivable decreased \$0.2 million from \$2.2 million to \$2.0 million.
- Net assets increased \$0.1 million during 2013, from \$7.2 million to \$7.3 million.

Financial Analysis of the District (2014)

The District's net position of \$268.1 million at June 30, 2014 was \$9.9 million less than at June 30, 2013.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013 (unaudited)**

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

<i>(in thousands)</i>	2014	2013	2012
Assets			
Current assets	\$ 106,107	\$ 117,956	\$ 108,973
Long-term investment and restricted funds	335,674	330,469	348,662
Capital assets, net	415,006	407,220	365,898
Other assets	15,902	17,164	26,213
Total assets	<u>872,689</u>	<u>872,809</u>	<u>849,746</u>
Deferred outflows of resources	23,403	1,651	-
Total assets and deferred outflows of resources	<u>\$ 896,092</u>	<u>\$ 874,460</u>	<u>\$ 849,746</u>
Liabilities			
Current liabilities	\$ 85,562	\$ 98,494	\$ 85,921
Net pension liability	71,400	175,770	-
Long-term debt	412,137	273,101	283,192
Other long-term liabilities	42,883	40,592	69,840
Total liabilities	<u>611,982</u>	<u>587,957</u>	<u>438,953</u>
Deferred inflows of resources	15,978	8,518	-
Net Position			
Invested in capital assets, net of related debt	155,732	162,914	147,024
Restricted - expendable	2,801	2,801	2,800
Restricted for minority interest	5,107	5,048	6,136
Unrestricted	104,492	107,222	254,833
Total net position	<u>268,132</u>	<u>277,985</u>	<u>410,793</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 896,092</u>	<u>\$ 874,460</u>	<u>\$ 849,746</u>

¹ The 2012 amounts for these line items are not directly comparable to the 2013 and 2014 amounts due to the adoption of GASB Nos. 65 and 68 effective July 1, 2012.

In 2014, the District's cash and investment position increased \$2.8 million.

Table 2 provides a summary of cash and investments as of June 30, 2014, 2013 and 2012.

<i>(in thousands)</i>	2014	2013	2012
Cash and cash equivalents and short-term investments	\$ 37,357	\$ 39,700	\$ 32,261
Board designated fund – funded depreciation	158,288	163,023	170,923
Board designated fund – pension funding	-	114,366	92,023
Workers' compensation fund	11,501	11,310	11,402
Unexpended capital bond funds, excluding amounts required for current liabilities	163,084	38,969	71,513
Specific purpose fund	2,801	2,801	2,800
Total available cash and investments	<u>\$ 373,031</u>	<u>\$ 370,169</u>	<u>\$ 380,922</u>

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

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

During the fiscal years ending from June 30, 2009 through June 30, 2013, the District had set aside \$106.8 million as Board designated funds for future pension plan funding. As of June 30, 2013, the market value of the set aside funds had grown to \$114.4 million. As of January 2014, all amounts reserved, including accumulated income, were transferred into pension assets. The total transfer of \$115.5 million reduced Board-designated assets, and also reduced the net pension liability as of June 30, 2014.

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.

Capital Assets, Net (2013)

Net capital assets increased \$41.3 million, from \$365.9 million at June 30, 2012 to \$407.2 million at June 30, 2013. This increase resulted from \$63.6 million in capital additions and \$6.3 million in net capitalized interest expense, offset by \$28.6 million in operating and non-operating depreciation of the District's assets. The capital additions included \$38.2 million in equipment, building, and land improvements combined with an increase of \$31.8 million in construction in progress. The majority of the capital expenditures in fiscal year 2013 were related to implementation of the Epic Electronic Health Record (EHR) and billing system. At June 30, 2013, outstanding commitments related to capital projects totaled \$35.7 million.

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

Debt Administration (2014 and 2013)

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, 2014, Washington Hospital's long-term debt service coverage ratio was 2.3 to 1.0. For the year ended June 30, 2013, Washington Hospital's long-term debt coverage ratio was 2.7 to 1.0. During the year ended June 30, 2014, Washington Hospital's Moody's rating of Baa1 was unchanged.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013 (unaudited)**

Table 3 shows the revenues, expenses, and changes in net position for the District for the years ended June 30, 2014, 2013 and 2012:

<i>(in thousands)</i>	2014	2013	2012
Operating revenues			
Net patient service revenues	\$ 445,902	\$ 467,029	\$ 449,755
Other	11,114	9,459	9,479
Total operating revenues	<u>457,016</u>	<u>476,488</u>	<u>459,234</u>
Operating expenses			
Salaries and wages	192,191	195,107	203,027
Employee benefits	78,322	83,349	82,743
Supplies	56,241	58,664	60,070
Professional fees	53,605	48,748	54,395
Purchased services	42,176	44,919	42,764
Depreciation	34,665	28,142	22,958
Insurance	1,873	2,352	2,294
Goodwill impairment	-	2,038	-
Other operating expenses	11,746	9,942	9,669
Total operating expenses	<u>470,819</u>	<u>473,261</u>	<u>477,920</u>
Operating income (loss)	(13,803)	3,227	(18,686)
Nonoperating revenues and expenses, net	<u>5,603</u>	<u>539</u>	<u>19,433</u>
Increase (decrease) in net position before special item	(8,200)	3,766	747
Grant to Alameda County Health Care Services	<u>-</u>	<u>-</u>	<u>(2,000)</u>
Increase (decrease) in net position before minority interest and restricted funds	(8,200)	3,766	(1,253)
Additional minority interest capital received	-	313	-
Minority interest distributions	<u>(1,653)</u>	<u>(1,415)</u>	<u>(1,307)</u>
Increase (decrease) in net position	(9,853)	2,664	(2,560)
Net position			
Beginning of year	277,985	410,793	413,353
Impact of adoption of GASB Nos. 65 and 68	<u>-</u>	<u>(135,472)</u>	<u>-</u>
End of year	<u>\$ 268,132</u>	<u>\$ 277,985</u>	<u>\$ 410,793</u>

¹ The 2012 amounts for these line items are not directly comparable to the 2013 and 2014 amounts due to the adoption of GASB Nos. 65 and 68 effective July 1, 2012.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013 (unaudited)**

Fiscal Year 2014 Revenue and Expense Analysis for the District

Net Patient Service Revenues

For the year ended June 30, 2014, net patient service revenues decreased by \$21.1 million or 4.5%. 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% from 3,664 in 2013 to 3,366 in 2014).

Surgeries performed at the Washington Outpatient Surgery Center increased by 491 (7.3%) from 6,721 in 2013 to 7,212 in 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%, 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 4 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%
	<u>57,017</u>	<u>60,405</u>	-5.6%
Newborn	<u>3,722</u>	<u>4,229</u>	-12.0%
Total patient days	<u>60,739</u>	<u>64,634</u>	-6.0%

The overall case mix index for the District, which is a measure of patient acuity, increased slightly from 1.526 in 2013 to 1.530 in 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% in the current year, 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.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 75.47% and 75.08% for fiscal years ended June 30, 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

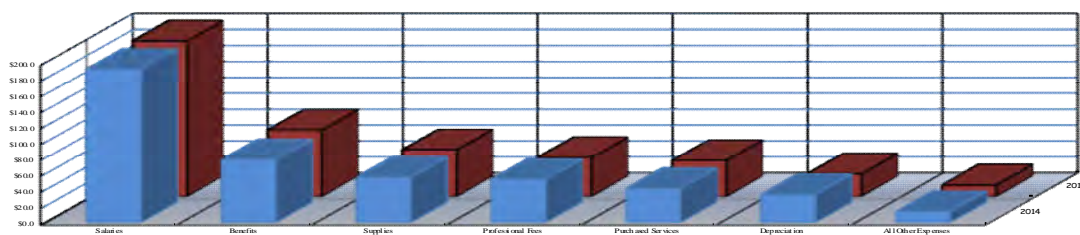
The District provides care without charge to patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$16.4 million and \$20.6 million in charges foregone related to charity 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%) from 2013 to 2014. The availability of coverage under the Affordable Care Act and the expansion of Medi-Cal coverage are believed to account for the reduction in private pay revenues, however the data is not yet conclusive.

Provisions for Bad Debt

The provisions for bad debt (expressed as a percentage of gross revenues) were 3.07% in 2014, compared to 3.32% in 2013. As discussed above, there was a significant reduction in private pay revenues in 2014. In addition to being the primary driver of charity care allowances, private pay revenues also account for the majority of bad debt writeoffs, 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 the years ended June 30, 2014 and 2013, respectively, as summarized in the graph below:



Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

Salaries and Wages

Total District salaries and wages decreased 1.5%, from \$195.1 million in 2013 to \$192.2 million in 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% and 3.0% 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%. 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% 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%, from \$83.3 million at June 30, 2013 to \$78.3 million at June 30, 2014. This reduction was primarily related to a decrease in pension expense for 2014, which was attributable to the reduction in force in 2013.

Fiscal Year 2013 Revenue and Expense Analysis for the District

Net Patient Service Revenues

For the year ended June 30, 2013, net patient service revenues increased by \$17.3 million or 3.8%. The net increase resulted primarily from an increase in case mix, combined with a modest impact from pricing adjustments implemented during 2013.

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

Inpatient Business Activity

The District's gross inpatient revenue increased 7.3%, from \$1.478 billion in fiscal year 2012 to \$1.586 billion in fiscal year 2013. Total acute patient days (excluding newborns) decreased by 4,832, from 65,237 to 60,405. The overall increase in inpatient revenue can be attributed to higher acuity surgical procedures and pricing adjustments implemented during the year.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013 (unaudited)**

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

	2013 Days	2012 Days	% Change
Specialty			
Medical/surgical	45,658	50,256	-9.1%
Critical care	8,526	8,629	-1.2%
Pediatrics	728	758	-4.0%
Obstetrics	5,493	5,594	-1.8%
	<u>60,405</u>	<u>65,237</u>	<u>-7.4%</u>
Newborn	4,229	4,218	0.3%
Total patient days	<u>64,634</u>	<u>69,455</u>	<u>-6.9%</u>

The overall case mix index for the District, which is a measure of patient acuity, increased from 1.419 in 2012 to 1.526 in 2013. The Medicare case mix index for the same period increased from 1.647 to 1.759.

Outpatient Business Activity

The District's gross outpatient revenue increased by \$79.1 million (15.3%) from \$518.4 million in fiscal year 2012 to \$597.5 million in fiscal year 2013. The increase was due primarily to an increase in outpatient visits at Washington Township Medical Foundation (WTMF) sites and pricing adjustments implemented during the year.

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 75.08% and 73.95% for fiscal years ended June 30, 2013 and 2012, respectively.

Charity Care

The District provides care without charge to patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$20.6 million and \$18.5 million in charges foregone related to charity care for patient services during fiscal years 2013 and 2012, respectively.

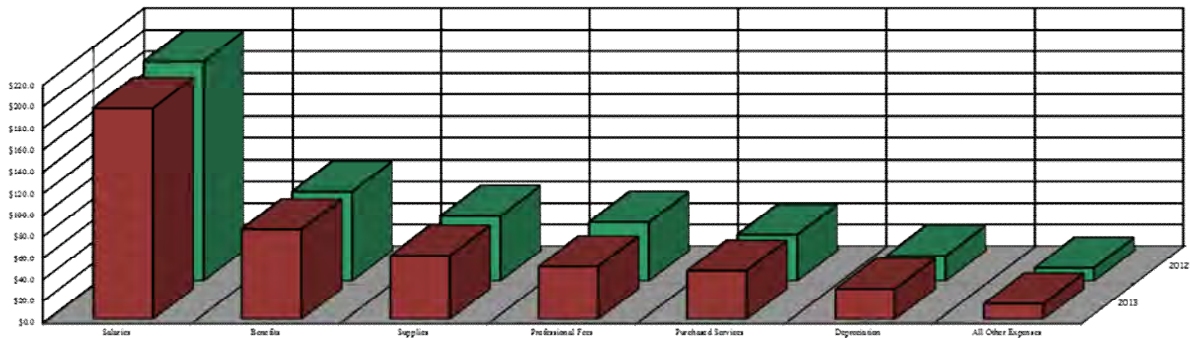
Provisions for Bad Debt

The provisions for bad debt (expressed as a percentage of gross revenues) were 3.32% in 2013, compared to 3.31% in 2012. Private pay charges, as a percentage of total gross charges, were 6.0% and 6.4% for the fiscal years ended June 30, 2013 and 2012, respectively.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

Operating Expenses

Total operating expenses were \$473.3 million and \$477.9 million for the years ended June 30, 2013 and 2012, respectively, as summarized in the graph below:



Salaries and Wages

Total District salaries and wages decreased 3.9%, from \$203.0 million in 2012 to \$195.1 million in 2013. The decrease in salaries and wages was attributable to the combined effect of normal flexing of staffing in response to reduced volumes along with strategic reductions in force, offset by contracted rate increases of between 1.0% and 3.0%.

Total FTEs decreased by 109 to 1,758 at June 30, 2013, from 1,867 at June 30, 2012, a decrease of 5.8%. The majority of the decrease in FTEs was due to early retirements and a reduction in force during 2013, offset by additional staffing related to the new electronic health record system.

Approximately 70% 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 rose by 0.7%, from \$82.7 million at June 30, 2012 to \$83.3 million at June 30, 2013. Pension expense for 2013 and 2012 are not comparable due to the adoption in 2013 of GASB 68. Benefits cost, excluding pension expense, rose from \$64.4 million in 2012 to \$66.1 million in 2013, due to severance costs associated with a reduction in force and higher workers compensation claims.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

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"). On June 29, 2012, the Supreme Court upheld the constitutionality of much of 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 Affordability 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. Some provisions of the health care reform legislation were effective immediately; with others originally scheduled to be phased in through 2014. The effective date for certain provisions were delayed, with further changes probable but difficult to predict. The District has already been affected by the coverage expansion provisions that went into effect on January 1, 2014, however, due to the delays in enrollment and other problems with the federal insurance exchange, it is still too early to quantify the overall effect of the changes that have already occurred, and to predict the effect of the changes yet to come.

On March 1, 2013, automatic spending reduction provisions of the Budget Control Act of 2011 originally scheduled for implementation on January 1, 2013, but postponed for two months under the American Taxpayer Relief Act of 2012, went into effect. These spending reductions, also known as sequestration reductions, resulted in a fixed two percent reduction in all Medicare spending. For fiscal year ended June 30, 2013, sequestration resulted in the loss of \$0.6 million in reimbursement for the District; for fiscal year ended June 30, 2014, the reduction in reimbursement was \$2.1 million.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

In addition to sequestration reductions, Medicare Disproportionate Share (DSH) payments to eligible hospitals were significantly reduced in 2014. For fiscal year 2013, the District received \$12.9 million in DSH payments. For fiscal year 2014, DSH payments received were \$8.8 million.

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 the year ended June 30, 2014, the District's revenues include \$2.0 million in Medicare EHR and \$0.7 million in Medi-Cal EHR funding. The District also received \$1.2 million in EHR incentive funding from Medi-Cal in 2013 and is on track to qualify for additional meaningful use incentive payments in future years.

Economic Factors Expected to Affect the District's 2015 Operations

The Board of Directors of the District approved the fiscal year 2015 operating budget at their June 2014 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 2015 budget anticipates a 3.2% decrease in expenditures from the 2014 level. This decrease includes an 8.7% decrease in salaries and wages, resulting from adjustments in staffing levels in response to changes in overall patient volumes experienced. In addition, reductions in staffing were experienced with the completion of the implementation of the Electronic Health Record (EHR).

At the same time, downward pressures on reimbursement are expected to continue. In estimating net revenues for 2015, District staff has attempted to incorporate the anticipated 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.

Financial Analysis of the Washington Hospital Healthcare Foundation

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.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013 (unaudited)**

Table 6 provides a summary of the Foundation's assets, liabilities, and net assets as of June 30, 2014, 2013 and 2012:

<i>(in thousands)</i>	2014	2013	2012
Assets			
Cash and cash equivalents	\$ 350	\$ 698	\$ 444
Contributions receivable, net	1,307	1,971	2,246
Short term investments held by district on behalf of foundation	4,445	3,337	3,383
Prepaid expenses and other	70	-	29
Investments	1,445	1,259	1,125
Total assets	<u>\$ 7,617</u>	<u>\$ 7,265</u>	<u>\$ 7,227</u>
Liabilities			
Accounts payable and accrued expenses	\$ 373	\$ -	\$ -
Total liabilities	<u>373</u>	<u>-</u>	<u>-</u>
Net Assets			
Restricted - expendable	6,817	6,594	6,389
Unrestricted	427	671	838
Total net assets	<u>7,244</u>	<u>7,265</u>	<u>7,227</u>
Total liabilities and net assets	<u>\$ 7,617</u>	<u>\$ 7,265</u>	<u>\$ 7,227</u>

In 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. In 2013, 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 \$0.3 million, from \$5.0 million at June 30, 2012 to \$5.3 million at June 30, 2013.

Table 7 provides a summary of cash and investments for the Foundation as of June 30, 2014, 2013 and 2012:

<i>(in thousands)</i>	2014	2013	2012
Cash and cash equivalents	\$ 350	\$ 698	\$ 444
Money market and certificates of deposit	526	524	520
Equity mutual fund	920	735	605
	<u>1,796</u>	<u>1,957</u>	<u>1,569</u>
Local Agency Investment Funds held by District on behalf of Foundation	<u>4,445</u>	<u>3,337</u>	<u>3,383</u>
Total available cash and investments	<u>\$ 6,241</u>	<u>\$ 5,294</u>	<u>\$ 4,952</u>

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

Table 8 shows the Foundation's activities and changes in net position for 2014, 2013 and 2012:

(in thousands)	2014			2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support									
Contributions	\$ 9	\$ 1,102	\$ 1,111	\$ 5	\$ 911	\$ 916	\$ 210	\$ 1,480	\$ 1,690
Contributed services	208	22	230	204	49	253	333	39	372
Investment income	27	-	27	45	-	45	22	-	22
Unrealized gain (loss) on investments	169	-	169	108	-	108	45	-	45
	413	1,124	1,537	362	960	1,322	610	1,519	2,129
Net assets released from restrictions	901	(901)	-	755	(755)	-	1,779	(1,779)	-
Total revenues, gains, and support	1,314	223	1,537	1,117	205	1,322	2,389	(260)	2,129
Expenses									
General and administrative	706	-	706	612	-	612	598	-	598
Donation to Pathways Hospice	-	-	-	-	-	-	25	-	25
Donations for Haiti Relief	-	-	-	-	-	-	5	-	5
Donation to George Mark Children's House	-	-	-	-	-	-	25	-	25
Donation to Citizens for Measure Z	-	-	-	75	-	75	-	-	-
Donation to Washington Township Health Care District	852	-	852	597	-	597	1,475	-	1,475
Total expenses	1,558	-	1,558	1,284	-	1,284	2,128	-	2,128
Increase (decrease) in net position	(244)	223	(21)	(167)	205	38	261	(260)	1
Net position									
Beginning of year	671	6,594	7,265	838	6,389	7,227	577	6,649	7,226
End of year	\$ 427	\$ 6,817	\$ 7,244	\$ 671	\$ 6,594	\$ 7,265	\$ 838	\$ 6,389	\$ 7,227

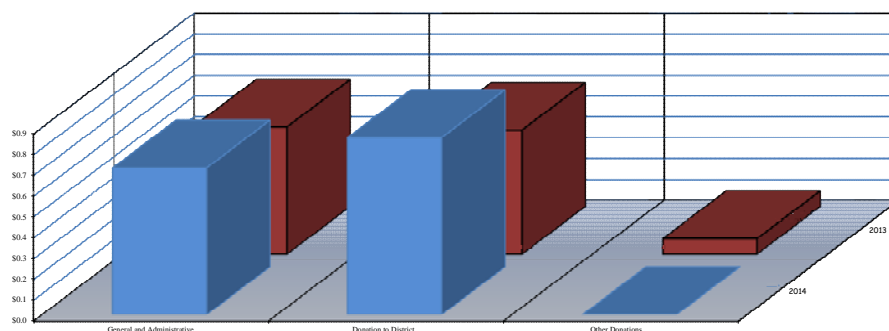
Fiscal Year 2014 Revenue and Expense Analysis for the Foundation

Revenues, Gains and Support

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

Expenses

Total expenses for the Foundation were \$1.6 million and \$1.3 million for fiscal years ended June 30, 2014 and 2013, respectively, as summarized in the graph below:



Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2014 and 2013 (unaudited)

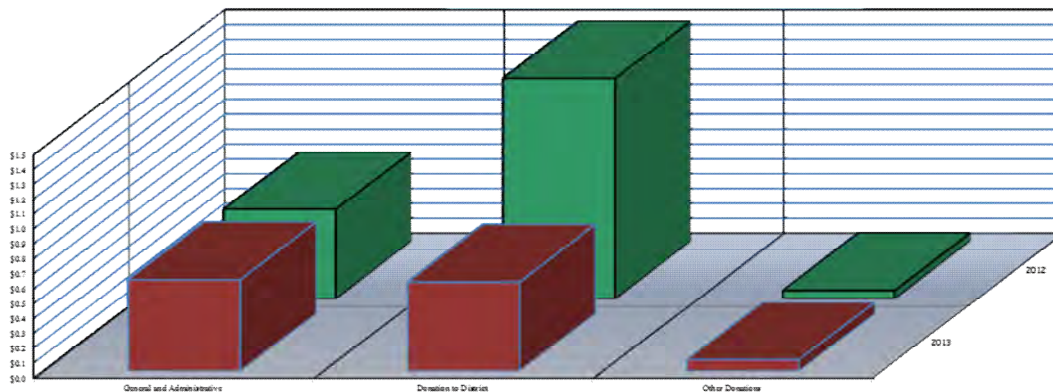
Fiscal Year 2013 Revenue and Expense Analysis for the Foundation

Revenues, Gains and Support

Total revenues, gains and support decreased 43.4% from \$2.1 million in 2012 to \$1.3 million in 2013. Contributions decreased by \$0.8 million from \$1.7 million in 2012 to \$0.9 million in 2013. The completion of the capital campaign to raise funds for the Center for Joint Replacement accounted for the majority of the decline in contribution revenue.

Expenses

Total expenses for the Foundation were \$1.3 million and \$2.1 million for fiscal years ended June 30, 2013 and 2012, 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, 2014 and 2013

	District		Foundation	
	2014	2013	2014	2013
Assets				
Current assets				
Cash and cash equivalents	\$ 19,499,000	\$ 11,117,000	\$ 350,000	\$ 698,000
Short-term investments	17,858,000	28,583,000	1,445,000	1,259,000
Short-term investments held by District on behalf of Foundation	-	-	4,445,000	3,337,000
Patient accounts receivable, less allowance for estimated uncollectibles of \$25,675,000 and \$38,766,000 in 2014 and 2013, respectively	57,210,000	67,579,000	-	-
Contributions receivable, net, due in less than 1 year	-	-	125,000	53,000
Supplies	3,618,000	3,363,000	-	-
Prepaid expenses and other	7,922,000	7,314,000	70,000	-
Total current assets	106,107,000	117,956,000	6,435,000	5,347,000
Long-term investment and restricted funds				
Board-designated for capital, debt and workers' compensation	169,789,000	174,333,000	-	-
Board-designated for pension funding	-	114,366,000	-	-
Held by trustee	163,084,000	38,969,000	-	-
Restricted funds	2,801,000	2,801,000	-	-
Capital assets, net	415,006,000	407,220,000	-	-
Other assets				
Contributions receivable, net, due in more than 1 year	-	-	1,182,000	1,918,000
Goodwill	7,394,000	7,394,000	-	-
Other noncurrent asset	8,508,000	9,770,000	-	-
Total assets	872,689,000	872,809,000	7,617,000	7,265,000
Deferred outflows of resources	23,403,000	1,651,000	-	-
Total assets and deferred outflows of resources	\$ 896,092,000	\$ 874,460,000	\$ 7,617,000	\$ 7,265,000
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 10,222,000	\$ 10,175,000	\$ -	\$ -
Accounts payable and accrued expenses	24,551,000	37,273,000	373,000	-
Due to Foundation	4,445,000	3,337,000	-	-
Due to government agencies	1,640,000	4,610,000	-	-
Accrued liabilities				
Payroll related	7,692,000	10,307,000	-	-
Vacation	14,351,000	14,989,000	-	-
Health benefits	3,457,000	3,430,000	-	-
Interest	10,119,000	7,219,000	-	-
Other	9,085,000	7,154,000	-	-
Total current liabilities	85,562,000	98,494,000	373,000	-
Long-term liabilities				
Workers' compensation claims	8,418,000	8,300,000	-	-
Net pension liability	71,400,000	175,770,000	-	-
Post-retirement employee medical benefits	34,465,000	32,292,000	-	-
Long-term debt, net of current maturities	213,434,000	218,355,000	-	-
Long-term debt, general obligation bonds	198,703,000	54,746,000	-	-
Total long-term liabilities	526,420,000	489,463,000	-	-
Total liabilities	611,982,000	587,957,000	373,000	-
Deferred Inflows of resources	15,978,000	8,518,000	-	-
Net position				
Invested in capital assets, net of related debt	155,732,000	162,914,000	-	-
Restricted - expendable	2,801,000	2,801,000	6,817,000	6,594,000
Restricted for minority interest	5,107,000	5,048,000	-	-
Unrestricted	104,492,000	107,222,000	427,000	671,000
Total net position	268,132,000	277,985,000	7,244,000	7,265,000
Total liabilities, deferred inflows of resources and net position	\$ 896,092,000	\$ 874,460,000	\$ 7,617,000	\$ 7,265,000

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, 2014 and 2013

	District		Foundation	
	2014	2013	2014	2013
Operating revenues				
Net patient service revenues	\$ 445,902,000	\$ 467,029,000	\$ -	\$ -
Other	10,262,000	8,862,000	-	-
Contributions	852,000	597,000	1,111,000	916,000
Contributed services	-	-	230,000	253,000
Total operating revenues	<u>457,016,000</u>	<u>476,488,000</u>	<u>1,341,000</u>	<u>1,169,000</u>
Operating expenses				
Salaries and wages	192,191,000	195,107,000	-	-
Employee benefits	78,322,000	83,349,000	-	-
Supplies	56,241,000	58,664,000	-	-
Professional fees	53,605,000	48,748,000	-	-
Purchased services	42,176,000	44,919,000	-	-
Depreciation	34,665,000	28,142,000	-	-
Insurance	1,873,000	2,352,000	-	-
Donations	-	-	852,000	672,000
Goodwill impairment	-	2,038,000	-	-
Other operating expenses	11,746,000	9,942,000	706,000	612,000
Total operating expenses	<u>470,819,000</u>	<u>473,261,000</u>	<u>1,558,000</u>	<u>1,284,000</u>
Operating income (loss)	<u>(13,803,000)</u>	<u>3,227,000</u>	<u>(217,000)</u>	<u>(115,000)</u>
Non-operating revenues and expenses				
Investment income	3,586,000	5,293,000	27,000	45,000
Net increase (decrease) in the fair value of investments	541,000	(5,181,000)	169,000	108,000
Interest expense, including amortization of premiums and discounts on bonds payable	(10,542,000)	(8,575,000)	-	-
Property tax revenue	12,620,000	8,514,000	-	-
Bond issuance costs	(1,182,000)	-	-	-
Other non-operating income	580,000	488,000	-	-
Total non-operating revenues and expenses	<u>5,603,000</u>	<u>539,000</u>	<u>196,000</u>	<u>153,000</u>
Increase (decrease) in net position before other changes	<u>(8,200,000)</u>	<u>3,766,000</u>	<u>(21,000)</u>	<u>38,000</u>
Minority interest - additional contributions from	-	313,000	-	-
Minority interest - distributions to	(1,653,000)	(1,415,000)	-	-
Increase (decrease) in net position after other changes	<u>(9,853,000)</u>	<u>2,664,000</u>	<u>(21,000)</u>	<u>38,000</u>
Total net position				
Beginning of year	277,985,000	410,793,000	7,265,000	7,227,000
Cumulative effect of new accounting standards	-	(135,472,000)	-	-
End of year	<u>\$ 268,132,000</u>	<u>\$ 277,985,000</u>	<u>\$ 7,244,000</u>	<u>\$ 7,265,000</u>

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

	District		Foundation	
	2014	2013	2014	2013
Cash flows from operating activities				
Cash received from patient service activities	\$ 456,271,000	\$ 466,979,000	\$ -	\$ -
Other cash receipts	11,114,000	9,459,000	1,775,000	1,191,000
Cash payments to suppliers	(168,586,000)	(160,227,000)	(546,000)	(330,000)
Cash payments to employees and employee benefit programs	(390,110,000)	(255,349,000)	-	-
Net cash provided by (used in) operating activities	<u>(91,311,000)</u>	<u>60,862,000</u>	<u>1,229,000</u>	<u>861,000</u>
Cash flows from noncapital financing activities				
Donation from Foundation to District	479,000	597,000	(479,000)	(597,000)
Other donations	-	-	-	(75,000)
Net cash provided by (used in) noncapital financing activities	<u>479,000</u>	<u>597,000</u>	<u>(479,000)</u>	<u>(672,000)</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(45,632,000)	(56,408,000)	-	-
Proceeds from sale of capital assets	153,000	-	-	-
Principal paid on debt	(10,569,000)	(9,713,000)	-	-
Interest paid on debt	(16,190,000)	(15,200,000)	-	-
Sale of net assets to minority shareholders in Washington Outpatient Surgery Center, LLC	-	313,000	-	-
Net assets distributed to minority shareholders in Washington Outpatient Surgery Center, LLC	(1,653,000)	(1,415,000)	-	-
Proceeds from debt issuance, net of issuance costs	148,639,000	267,000	-	-
Proceeds from property taxes levied by the County	14,381,000	8,999,000	-	-
Net cash provided by (used in) capital and related financing activities	<u>89,129,000</u>	<u>(73,157,000)</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities				
Purchases of investments	(204,862,000)	(294,201,000)	(1,216,000)	(15,000)
Sales of investments	210,923,000	298,774,000	91,000	35,000
Investment income	3,012,000	5,197,000	27,000	45,000
Other nonoperating income received	1,012,000	928,000	-	-
Net cash provided by (used in) investing activities	<u>10,085,000</u>	<u>10,698,000</u>	<u>(1,098,000)</u>	<u>65,000</u>
Net increase (decrease) in cash and cash equivalents	8,382,000	(1,000,000)	(348,000)	254,000
Cash and cash equivalents				
Beginning of year	11,117,000	12,117,000	698,000	444,000
End of year	<u>\$ 19,499,000</u>	<u>\$ 11,117,000</u>	<u>\$ 350,000</u>	<u>\$ 698,000</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income/(loss)	\$ (13,803,000)	\$ 3,227,000	\$ (217,000)	\$ (115,000)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	34,665,000	28,142,000	-	-
Loss on disposal of fixed assets	152,000	-	-	-
Provision for doubtful accounts	63,716,000	71,827,000	-	-
Goodwill impairment	-	2,038,000	-	-
Pension funding	(134,026,000)	-	-	-
Net change in deferred outflows and inflows	4,208,000	6,867,000	-	-
Donations	-	-	479,000	672,000
Changes in assets and liabilities				
Accounts receivables	(53,347,000)	(71,877,000)	664,000	275,000
Supplies, prepaid expenses, and other current assets	(289,000)	(1,398,000)	(70,000)	29,000
Other assets	1,635,000	4,535,000	-	-
Due to Foundation	1,108,000	50,000	-	-
Due from/to government agencies	(2,970,000)	4,449,000	-	-
Accounts payable and accrued expenses	(1,899,000)	4,778,000	373,000	-
Payroll, vacation, and health accrued liabilities	(3,226,000)	2,715,000	-	-
Other liabilities	12,765,000	5,509,000	-	-
Net cash provided by (used in) operating activities	<u>\$ (91,311,000)</u>	<u>\$ 60,862,000</u>	<u>\$ 1,229,000</u>	<u>\$ 861,000</u>
Noncash transactions				
Capitalized interest	\$ 8,379,000	\$ 6,265,000	\$ -	\$ -
Accounts payable and accrued expenses for property and equipment purchases	7,389,000	18,212,000	-	-
Contributed services	-	-	230,000	253,000

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

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. 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 the Washington Hospital Healthcare System, which consists of Washington Hospital (the Hospital), a 353-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 nonprofit corporation exempt from federal and state income tax. The Foundation was established to raise funds for the operation, maintenance, and modernization of the facilities of the District, its related corporations, and sponsored programs which benefit the District. Accordingly, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. Complete financial statements for the Foundation can be obtained from the Foundation at 2000 Mowry Avenue, Fremont, CA 94538.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

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 nonprofit 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.

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.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

Promises to Give

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

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, pension costs or for funding insurance are considered to be Board designated funds. These and other investments, whose use has been limited by financial arrangements, are classified as long- or short-term investment funds. Investments whose use by the District has been limited by donors to a specific time period or purpose are classified as restricted funds.

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

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

Goodwill is tested for impairment annually or more frequently if changing circumstances warrant. Impairment analysis during 2013 resulted in recognition of a \$2.0 million goodwill impairment loss related to the Washington Outpatient Surgery Center. Minority interest equity was reduced by 49% of this amount, or approximately \$1.0 million; the District's equity amount was also reduced by approximately \$1.0 million. Impairment analysis during 2014 indicated no additional impairment.

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. 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.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

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 2014, the Washington Outpatient Surgery Center earned operating income of approximately \$3.6 million. The District distributed a portion of the minority interest's share of 2014 earnings in 2014.

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, 2013 and 2014.

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.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

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 28% and 27% of the District's net patient service revenues for the fiscal years ended June 30, 2014 and 2013, respectively. Medicare and Medi-Cal are the only payors that represent more than 10% of the District's net patient accounts receivable as of June 30, 2014. The District maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

As of June 30, 2014, the District owned approximately \$5.0 million, net of contractual allowances, from Alameda Alliance for Health (the Alliance), the Alameda County Medi-Cal HMO, for providing healthcare services to their members. The Alliance has 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 has estimated an additional reserve of approximately \$1.0 million (remaining net receivable is approximately \$3.9 million).

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 113 donor pledges, with the largest individual pledge representing approximately 70% of the total, as of June 30, 2014. The Foundation had 127 donor pledges, with the largest individual pledge representing approximately 76% of the total, as of June 30, 2013.

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 in 2014 and 2013, related to prior years, including adjustments to prior year estimates, increased net patient service revenues approximately \$3.6 million in 2014 and approximately \$4.7 million in 2013.

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.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

Charity Care

The District provides care without charge to 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 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.

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

In accordance with GASB Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the District is required to evaluate prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. Based on management's evaluation, there were no impairment losses in 2014 and 2013.

Income Taxes

District

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

Foundation

The Foundation is a California nonprofit corporation; exempt from federal and state income tax as a 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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, sets forth criteria to classify previously reported assets and liabilities as deferred outflows or inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This standard was issued in March 2012 and was effective for periods beginning after December 15, 2012. Adoption of this standard resulted in the elimination of unamortized bond issuance costs of \$2.5 million as of July 1, 2012 and a corresponding reduction in unrestricted net position.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Adoption of this standard did not have a material impact on the financial statements.

GASB Statement No 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* requires governments providing pensions through pension plans administered as trusts or similar arrangements that meet certain criteria and requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This standard was issued in June 2012 and is effective for periods beginning after June 15, 2014, with earlier adoption encouraged. Management elected early adoption of the requirements of this standard, the effects of which are included in the June 30, 2014 and in the June 30, 2013 balances presented in the accompanying financial statements. Adoption of this standard resulted in the recognition of an additional \$133.0 million in net pension liability and a corresponding reduction in unrestricted net position of \$133.0 million as of July 1, 2012. See additional related discussion in Note 11.

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. Management is currently evaluating the impact that Statement No. 69 will have on its financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for financial reporting periods beginning after June 15, 2013. This Statement establishes standards for recording a liability when a government extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange. As part of the nonexchange financial guarantee, the government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. This standard requires the government that extends a nonexchange financial guarantee to record a liability when qualitative factors and historical data indicate that its more likely than not that the government will be required to make a payment on the guarantee. Adoption of this standard did not have an impact on the financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, to be applied simultaneously with adoption of Statement No. 68. Adoption of this standard did not have an impact on the District's financial statements.

Foundation

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

2. Patient Revenues

Patient revenues consist of the following:

	2014	2013
Gross patient charges		
Routine inpatient services	\$ 382,244,000	\$ 403,407,000
Ancillary inpatient services	1,104,094,000	1,182,398,000
Outpatient services	<u>607,522,000</u>	<u>597,508,000</u>
	2,093,860,000	2,183,313,000
Less: Charity care	<u>(16,406,000)</u>	<u>(20,583,000)</u>
Gross patient service revenues	<u>2,077,454,000</u>	<u>2,162,730,000</u>
Deductions from gross patient service revenues		
Contractual allowances for statutory and negotiated rates	1,567,836,000	1,623,874,000
Provision for doubtful accounts	<u>63,716,000</u>	<u>71,827,000</u>
	<u>1,631,552,000</u>	<u>1,695,701,000</u>
Net patient service revenues	<u>\$ 445,902,000</u>	<u>\$ 467,029,000</u>

The District has agreements with third-party payors that provide for payments to the District at amounts that differ from established rates. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District also receives Medicare Disproportionate Share (DSH) reimbursements for services provided to a disproportionate percentage of low-income patients. The Medicare program pays hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the District is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory are paid based upon prospectively determined fee schedules. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been audited for all fiscal years through June 30, 2010. 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 2011 have been finalized. Services provided to Medi-Cal program beneficiaries are reimbursed at negotiated per-diem rates.

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

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances, which represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Receivables for patient care are also reduced for allowances for uncollectible accounts.

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

At the current time there is uncertainty about reimbursements from government programs. The Centers for Medicare and Medicaid Services 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 most recent 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 the years ended June 30, 2014 and June 30, 2013, the District recognized amounts under the Hospital Fee Program of \$0.2 million and \$1.2 million, respectively, which have been reported as net patient service revenues.

Non-Designated Public Hospitals (NDPHs), including the District, were authorized, in 2011's AB 113, to use intergovernmental transfers (IGTs) to obtain federal supplemental funds for Medi-Cal inpatient fee-for-service. The IGTs are used to bring NDPHs, in the aggregate, up to their upper payment limit (UPL). The UPL is the federal maximum available under the Medicaid program, as calculated based on the actual costs of providing care. For the years ended June 30, 2014 and June 30, 2013, the District recognized amounts under the IGT Program of \$2.1 million and \$1.6 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 the years ended June 30, 2014 and 2013, the District recorded net patient service revenues of \$1.1 million and \$0.8 million, respectively.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

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 the fiscal year ending June 30, 2014 of \$3.4 million. No LIHP revenues were recognized in the year ending June 30, 2013.

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

	2014	2013
Medicare and Medicare HMO	\$ 1,111,636,000	\$ 1,179,581,000
Medi-Cal and Medi-Cal HMO	367,662,000	328,252,000
Commercial PPO, HMO and others	547,073,000	583,429,000
Private pay	<u>67,489,000</u>	<u>92,051,000</u>
	<u>\$ 2,093,860,000</u>	<u>\$ 2,183,313,000</u>

3. Charity Care

The District maintains records to identify and monitor the level of direct charity care it provides. For the years ended June 30, 2014 and 2013, net patient service revenues excludes charges foregone for charity care services and supplies of approximately \$16.5 million and \$20.6 million, respectively. In addition, the estimated cost in excess of reimbursement (unaudited) for indigent patients under publicly-sponsored programs was \$57 million and \$48 million, respectively.

4. Contributions Receivable

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

	2014	2013
Critical Care Pavilion	\$ 1,211,000	\$ 1,857,000
Center for Joint Replacement	101,000	210,000
Other	<u>125,000</u>	<u>52,000</u>
Contributions receivable before unamortized discount and allowance for uncollectibles	1,437,000	2,119,000
Less:		
Allowance for uncollectibles	(58,000)	(35,000)
Unamortized net present value adjustment	<u>(72,000)</u>	<u>(113,000)</u>
Net contributions receivable	<u>\$ 1,307,000</u>	<u>\$ 1,971,000</u>
Amounts due in		
Less than 1 year	\$ 125,000	\$ 52,000
1 to 3 years	<u>1,182,000</u>	<u>1,919,000</u>
	<u>\$ 1,307,000</u>	<u>\$ 1,971,000</u>

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

The value of contributions receivable represents the Foundation's expected future cash flows from each pledge. For the year ended June 30, 2014 the Foundation used a discount rate of 4.5% (for the year ended June 30, 2013 the rate used was 6.0%). 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

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:

	2014	2013
Critical Care Pavilion	\$ 4,610,000	\$ 4,647,000
Center for Joint Replacement	141,000	131,000
Health-related services	1,242,000	982,000
Emergency room and critical care	306,000	306,000
Other activities	29,000	27,000
Education and professional recognition	104,000	159,000
Surgical	50,000	46,000
Childbirth and family services	4,000	33,000
Pathways Hospice	331,000	265,000
	<u>\$ 6,817,000</u>	<u>\$ 6,596,000</u>

6. Related-Party Transactions

The District held \$4,445,000 and \$3,337,000 as of June 30, 2014 and 2013, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated \$852,000 and \$597,000 to the District for the fiscal years ended June 30, 2014 and 2013, respectively.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

7. Long-Term Investment and Restricted Funds

District

As of June 30, 2014 and 2013, investment and restricted funds, at fair value, have been set aside as follows:

	2014	2013
Board-designated funds		
Funded depreciation	\$ 176,146,000	\$ 191,606,000
Pension funding	-	114,366,000
Workers' compensation fund	11,501,000	11,310,000
Funds held by trustee under bond indenture	163,084,000	38,969,000
Restricted funds	<u>2,801,000</u>	<u>2,801,000</u>
Total funds	353,532,000	359,052,000
Short-term investments – required for current liabilities	<u>(17,858,000)</u>	<u>(28,583,000)</u>
Total long-term investment and restricted funds	<u>\$ 335,674,000</u>	<u>\$ 330,469,000</u>

The District is permitted to hold only readily marketable securities. 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. Agency securities	15 years	100%	none
State of California or local agency obligations	15 years	100%	none
		As permitted	
LAIF (State Pool Demand Deposits)	N/A	by law	\$50,000,000
Corporate bonds	10 years *	30%	none
Certificates of deposit	1 year	20%	none
Repurchase agreements	1 year	N/A	\$4,000,000
Bankers acceptances	270 days	40%	none
Commercial paper	180 days	30%	none
Mutual funds	N/A	15%	none

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

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

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 31,093,000	\$ -	\$ 31,093,000	\$ -	\$ -
U.S. 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	<u>\$ 353,532,000</u>	<u>\$ 239,163,000</u>	<u>\$ 100,157,000</u>	<u>\$ 6,281,000</u>	<u>\$ 7,931,000</u>

As of June 30, 2013 the District had the following investments with maturities as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 111,721,000	\$ 19,997,000	\$ 37,723,000	\$ 54,001,000	\$ -
U.S. Agencies	37,351,000	6,042,000	15,897,000	11,937,000	3,475,000
Corporate bonds	105,898,000	8,069,000	79,477,000	6,160,000	12,192,000
LAIF (State Pool Demand Deposits)	49,999,000	49,999,000	-	-	-
Money market and mutual funds	54,082,000	54,082,000	-	-	-
Total investments	<u>\$ 359,051,000</u>	<u>\$ 138,189,000</u>	<u>\$ 133,097,000</u>	<u>\$ 72,098,000</u>	<u>\$ 15,667,000</u>

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 limits investments made by each investment manager to have an average maturity of not more than seven years.

Credit Risk

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

The District's investments at June 30, 2014 are rated as follows:

	Fair Value	Ratings
Investment Type		
U.S. Treasuries	\$ 31,093,000	Not rated
U.S. Agencies	16,882,000	Not rated
Corporate bonds	71,442,000	See below
Local agency investment fund	167,788,000	Not rated
Money market and mutual funds	66,327,000	Not rated
	<u>\$ 353,532,000</u>	

(in thousands)

	Amount
Corporate Bonds Rating	
AAA	\$ 9,880,000
AA+	3,266,000
AA	4,419,000
AA-	4,799,000
A+	12,258,000
A	12,419,000
A-	9,843,000
BBB+	7,739,000
BBB	6,819,000
	<u>\$ 71,442,000</u>

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

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

Foundation

Investments as of June 30, 2014 and 2013, at fair value are summarized below:

	2014	2013
Money market and certificates of deposit	\$ 526,000	\$ 524,000
Equity mutual fund	919,000	735,000
Local Agency Investment Funds held by District on behalf of Foundation	<u>4,445,000</u>	<u>3,337,000</u>
	<u>\$ 5,890,000</u>	<u>\$ 4,596,000</u>

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

8. Capital Assets

Capital assets activity for the year ended June 30, 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	<u>112,189,000</u>	<u>41,371,000</u>	<u>(81,609,000)</u>	<u>71,951,000</u>
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	<u>576,289,000</u>	<u>83,426,000</u>	<u>(3,355,000)</u>	<u>656,360,000</u>
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	<u>(281,258,000)</u>	<u>(35,097,000)</u>	<u>3,050,000</u>	<u>(313,305,000)</u>
Total capital assets being depreciated, net	<u>295,031,000</u>	<u>48,329,000</u>	<u>(305,000)</u>	<u>343,055,000</u>
Total capital assets, net	<u>\$ 407,220,000</u>	<u>\$ 89,700,000</u>	<u>\$ (81,914,000)</u>	<u>\$ 415,006,000</u>

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.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

Capital assets activity for the year ended June 30, 2013 consisted of the following:

	Beginning Balance June 30, 2012	Increases	Decreases	Ending Balance June 30, 2013
Capital assets, not being depreciated				
Land	\$ 10,482,000	\$ -	\$ -	\$ 10,482,000
Construction in progress	69,957,000	62,371,000	(30,621,000)	101,707,000
Total capital assets not being depreciated	<u>80,439,000</u>	<u>62,371,000</u>	<u>(30,621,000)</u>	<u>112,189,000</u>
Capital assets being depreciated				
Land improvements	10,707,000	521,000	-	11,228,000
Buildings	299,644,000	8,893,000	-	308,537,000
Fixed and moveable equipment	237,012,000	28,800,000	(9,288,000)	256,524,000
Total capital assets being depreciated	<u>547,363,000</u>	<u>38,214,000</u>	<u>(9,288,000)</u>	<u>576,289,000</u>
Less: Accumulated depreciation				
Land improvements	(6,173,000)	(359,000)	-	(6,532,000)
Buildings	(106,624,000)	(11,723,000)	-	(118,347,000)
Fixed and movable equipment	(149,107,000)	(16,529,000)	9,257,000	(156,379,000)
Total accumulated depreciation	<u>(261,904,000)</u>	<u>(28,611,000)</u>	<u>9,257,000</u>	<u>(281,258,000)</u>
Total capital assets being depreciated, net	<u>285,459,000</u>	<u>9,603,000</u>	<u>(31,000)</u>	<u>295,031,000</u>
Total capital assets, net	<u>\$ 365,898,000</u>	<u>\$ 71,974,000</u>	<u>\$ (30,652,000)</u>	<u>\$ 407,220,000</u>

At June 30, 2013, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$35.7 million.

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

	2014	2013
Change in accumulated depreciation		
Operating depreciation expense	\$ 34,665,000	\$ 28,142,000
Non-operating depreciation expense	432,000	469,000
Disposal of fixed assets	<u>(3,050,000)</u>	<u>(9,257,000)</u>
Total increase in accumulated depreciation	<u>\$ 32,047,000</u>	<u>\$ 19,354,000</u>

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.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

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

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

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

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

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, 2014 and 2013, maintaining debt service coverage ratios of 2.3 to 1.0 and 2.7 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

In 2012, the Washington Outpatient Surgery Center borrowed \$995,000 for working capital needs, in the form of a 5-year Non-Disclosable Loan. The loan is payable in monthly installments of \$18,106 with an interest rate of 3.51%.

In 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.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

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 Series Revenue Bonds, principal and interest (at 4.00% to 5.5%) 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 Series Revenue Bonds, principal and interest (at 3.00% to 5.5%) 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 5.5%) 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 6.5%) 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 3.6% to 5.0%) 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 3.5%) payable monthly	789,000	-	-	(529,000)	260,000	212,000
Total 2013 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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2013 is as follows:

	Beginning Balance, June 30, 2012	Additions	Amortization/ Other	Repayments	Ending Balance, June 30, 2013	Due Within One Year
Bonds payable						
2010 Series Revenue Bonds, principal and interest (at 4.0%) payable semiannually	\$ 60,725,000	\$ -	\$ -	\$ (1,115,000)	\$ 59,610,000	\$ 1,160,000
Less: Issuance discounts	(768,000)	-	(66,000)	-	(834,000)	-
Total 2010 Series Revenue Bonds Payable	59,957,000	-	(66,000)	(1,115,000)	58,776,000	1,160,000
2009 Series Revenue Bonds, principal and interest (at 4.5%) payable semiannually	54,185,000	-	-	(855,000)	53,330,000	890,000
Less: Issuance discounts	(869,000)	-	40,000	-	(829,000)	-
Total 2009 Series Revenue Bonds Payable	53,316,000	-	40,000	(855,000)	52,501,000	890,000
2009 General Obligation Bonds principal and interest (at 6.5%) payable semiannually	21,640,000	-	-	(2,930,000)	18,710,000	2,585,000
Plus: Issuance premiums	325,000	-	(210,000)	-	115,000	-
Total 2009 General Obligation Bonds Payable	21,965,000	-	(210,000)	(2,930,000)	18,825,000	2,585,000
2007 Series Revenue Bonds, principal and interest (at 5.0%) payable semiannually	76,480,000	-	-	(885,000)	75,595,000	930,000
Less: Issuance discounts	(1,282,000)	-	119,000	-	(1,163,000)	-
Total 2007 Series Revenue Bonds Payable	75,198,000	-	119,000	(885,000)	74,432,000	930,000
2006 General Obligation Bonds principal and interest (at 3.55%) payable semiannually	43,630,000	-	-	(2,365,000)	41,265,000	2,980,000
Plus: Issuance premiums	269,000	-	(48,000)	-	221,000	-
Total 2006 General Obligation Bonds Payable	43,899,000	-	(48,000)	(2,365,000)	41,486,000	2,980,000
1999 Series Revenue Bonds, principal and interest (at 5.0%) payable semiannually	37,785,000	-	-	(1,335,000)	36,450,000	1,400,000
Less: Issuance discounts	(253,000)	-	26,000	-	(227,000)	-
Total 1999 Series Revenue bonds payable	37,532,000	-	26,000	(1,335,000)	36,223,000	1,400,000
Loans Payable						
2013 ADP Financing principal and interest (at 5.32%) payable monthly	-	267,000	-	(23,000)	244,000	54,000
Total 2013 ADP Loan Payable	-	267,000	-	(23,000)	244,000	54,000
2012 WOSC Loan Payable principal and interest (at 3.5%) payable monthly	995,000	-	-	(206,000)	789,000	176,000
Total 2013 WOSC Loan Payable	995,000	-	-	(206,000)	789,000	176,000
Total long-term debt payable	\$ 292,862,000	\$ 267,000	\$ (139,000)	\$ (9,714,000)	\$ 283,276,000	\$ 10,175,000

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

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

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

The long-term debt amortization requirements as of June 30, 2014, excluding amortization of discounts and premiums on bonds payable, are as follows:

	Total Long-Term Debt	
	Principal	Interest
June 30		
2015	\$ 10,222,000	\$ 21,680,000
2016	6,043,000	21,253,000
2017	6,281,000	20,954,000
2018	6,551,000	20,635,000
2019	6,810,000	20,299,000
2020 - 2024	46,595,000	95,091,000
2025 - 2029	51,430,000	82,782,000
2030 - 2034	78,505,000	66,423,000
2035 - 2039	113,440,000	40,654,000
2040 - 2044	95,275,000	12,699,000
	<u>\$ 421,152,000</u>	<u>\$ 402,470,000</u>

Components of interest expense include the following:

	2014	2013
Total interest cost	\$ 18,920,000	\$ 14,840,000
Capitalized interest expense	<u>(8,378,000)</u>	<u>(6,265,000)</u>
Net interest expense	<u>\$ 10,542,000</u>	<u>\$ 8,575,000</u>
Capitalized investment income	\$ 126,000	\$ 4,000

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

10. Short-Term Debt

Washington Hospital Outpatient Surgery Center renewed an agreement for a short-term \$1.0 million revolving line of credit in 2013. The line of credit was renewed in July 2014. There have been no drawings under the line of credit since its inception.

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 fiscal years prior to 2014, the District recognized pension expense based upon GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. In fiscal year 2014 the District early adopted the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an Amendment to GASB 27* retroactive to the fiscal year beginning July 1, 2012. Adoption of this standard resulted in the following changes to the statement of net position as of June 30, 2013: recognition of an additional \$123.7 million in pension-related liability and \$6.9 million in deferred inflows of resources, and reduction in unrestricted net position by \$130.6 million. Pension expense for the year ended June 30, 2013 was also reduced by \$2.5 million.

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. Contributions of \$134,026,453 for the year ended June 30, 2014 included amounts previously set aside in board-designated accounts for pension funding, which were transferred to Plan assets during 2014.

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

	2014	2013
Active	1,349	1,388
Vested Terminated	632	617
Retirees and beneficiaries	713	666
Total participants	2,694	2,671

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

Components of pension cost and deferred outflows and inflows of resources for years ended June 30, as calculated under the requirements of GASB 68 were as follows:

	2014	2013
Pension cost		
Service cost	\$ 5,456,000	\$ 6,580,000
Interest	20,223,000	19,283,000
Expected return on plan assets	(7,040,000)	(6,872,000)
Recognition of deferred amounts	(3,275,000)	(1,836,000)
Plan change	-	-
Total pension cost	\$ 15,364,000	\$ 17,155,000
Deferred inflows of resources		
Remaining balance at beginning of year		
Established July 1, 2012		
Difference between expected and actual experience	\$ (3,976,000)	\$ (5,173,000)
Difference between expected and actual earnings on plan investments	(4,542,000)	(5,678,000)
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	(12,240,000)	-
	<u>(20,758,000)</u>	<u>(10,851,000)</u>
Amount recognized in current year pension cost:		
Established July 1, 2012		
Difference between expected and actual experience	(1,196,000)	(1,197,000)
Difference between expected and actual earnings on plan investments	(1,136,000)	(1,136,000)
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	(2,448,000)	-
	<u>(4,780,000)</u>	<u>(2,333,000)</u>
Deferred inflows of resources at end of year	\$ (15,978,000)	\$ (8,518,000)
Deferred outflows of resources		
Established July 1, 2012		
Change in assumptions	\$ 1,651,000	\$ 2,148,000
Established July 1, 2013		
Difference between expected and actual experience	4,395,000	-
Change in assumptions	362,000	-
Deferred outflows of resources at the beginning of the year	<u>6,408,000</u>	<u>2,148,000</u>
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	-
Change in assumptions	77,000	-
	<u>1,505,000</u>	<u>497,000</u>
Amounts of deferred outflows to be recognized in pension assets for future years		
Employer contributions made after measurement date		
2015	18,500,000	-
	<u>\$ 23,403,000</u>	<u>\$ 1,651,000</u>
Amounts of deferred outflows to be recognized in pension cost for future years		
2014	\$ -	\$ (2,332,000)
2015	(4,780,000)	(2,332,000)
2016	(4,780,000)	(2,332,000)
2017	(3,970,000)	(1,522,000)
2018	(2,448,000)	-
Thereafter	-	-
	<u>\$ (15,978,000)</u>	<u>\$ (8,518,000)</u>
Amounts of deferred inflows to be recognized in pension cost for future years		
2014	\$ -	\$ 497,000
2015	1,505,000	497,000
2016	1,505,000	497,000
2017	1,168,000	160,000
2018	725,000	-
Thereafter	-	-
	<u>\$ 4,903,000</u>	<u>\$ 1,651,000</u>

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

The following table summarizes changes in net pension liability from July 1, 2012 to June 30, 2014:

	2014	2013
Total pension liability		
Service cost	\$ 5,456,000	\$ 6,580,000
Interest	20,223,000	19,283,000
Change in plan provisions	-	-
Difference between expected and actual experience	4,395,000	(5,173,000)
Change in assumptions	362,000	2,148,000
Benefit payments	<u>(11,483,000)</u>	<u>(9,298,000)</u>
Net change in total pension liability	18,953,000	13,540,000
Total pension liability (beginning of year)	<u>276,395,000</u>	<u>262,855,000</u>
Total pension liability (end of year)	295,348,000	276,395,000
Plan fiduciary net position		
Employer contributions	115,526,000	-
Net investment income	19,342,000	12,619,000
Benefit payments	(11,483,000)	(9,298,000)
Administrative expense	(62,000)	(69,000)
Other	<u>-</u>	<u>-</u>
Net change in fiduciary net position	123,323,000	3,252,000
Fiduciary net position (beginning of year)	<u>100,625,000</u>	<u>97,373,000</u>
Fiduciary net position (end of year)	<u>223,948,000</u>	<u>100,625,000</u>
Net pension liability (end of year)	<u>\$ 71,400,000</u>	<u>\$ 175,770,000</u>
Fiduciary net position as percent of liability	<u>75.8%</u> ¹	<u>36.4%</u>
Covered employee payroll	<u>144,445,000</u>	<u>145,324,000</u>
Net pension liability as percent of covered payroll	<u>49.4%</u> ²	<u>121.0%</u>
Deferred outflows of resources		
Employer contributions after measurement date	\$ 18,500,000	\$ -
¹ Fiduciary net position as percent of liability including deferred outflows of resources	82.1%	36.4%
² Net pension liability as percent of covered payroll including deferred outflows of resources	36.6%	121.0%

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2012, June 30, 2013 and June 30, 2014:

Valuation date	January 1, 2012, January 1, 2013, January 1, 2014
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%
	5.0% for 2012
Projected Salary Increases	3.0% for 2013 and 2014
Sensitivity of Net Pension Liability at January 1, 2012 to changes in the Discount Rate, with no other changes -	
1 percent decrease (6.5%)	\$196,981,717
Current Discount Rate (7.5%)	165,481,923
1 percent increase (8.5%)	138,833,952
Sensitivity of Net Pension Liability at January 1, 2013 to changes in the Discount Rate, with no other changes -	
1 percent decrease (6.5%)	\$209,065,737
Current Discount Rate (7.5%)	175,770,086
1 percent increase (8.5%)	147,759,569
Sensitivity of Net Pension Liability at January 1, 2014 to changes in the Discount Rate, with no other changes -	
1 percent decrease (6.5%)	\$106,951,408
Current Discount Rate (7.5%)	71,400,302
1 percent increase (8.5%)	41,999,313

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 to a maximum of 1.5% of gross earnings. Under these agreements, the District purchases annuity contracts for various investments. All investment earnings, including market value appreciation and depreciation, are set aside in trusts for the benefit of the participants.

Contributions made by the District in 2014 and 2013 were as follows:

Contribution Year	Amount	Employee Deductions Being Matched
2014	\$ 1,899,000	Calendar year 2013
2013	1,964,000	Calendar year 2012

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 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 the fiscal years ended June 30, 2014 and 2013, the District contributed \$1.3 million and \$0.9 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.

<i>(in thousands)</i>	2014	2013
Annual required contribution	\$ 5,006,000	\$ 4,674,000
Interest on net OPEB obligation	1,534,000	1,422,000
Adjustment to annual required contribution	<u>(3,059,000)</u>	<u>(2,836,000)</u>
Annual OPEB cost	3,481,000	3,260,000
Contributions made	<u>1,307,000</u>	<u>907,000</u>
Increase in net OPEB Obligation	2,174,000	2,353,000
Net OPEB obligation		
Beginning of year	<u>32,292,000</u>	<u>29,939,000</u>
End of year	<u>\$ 34,466,000</u>	<u>\$ 32,292,000</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

<i>(in thousands)</i>	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended			
2012	\$ 3,403,000	24.28 %	\$ 29,939,000
2013	3,260,000	27.82 %	32,292,000
2014	3,481,000	37.56 %	34,466,000

Washington Township Health Care District

Notes to Financial Statements

June 30, 2014 and 2013

As of June 30, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$38.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$38.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$143.6 million, and the ratio of the UAAL to the covered payroll was 26.8%.

In the June 30, 2014 and June 30, 2013 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%, reduced by decrements to an ultimate rate of 5% by the year 2019. For each of the years, a discount rate of 4.75% was assumed in the calculation and the UAAL is being amortized as a level percentage over 15 years on an open basis.

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

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

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.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

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

<i>(in thousands)</i>	Policy Limit	Self-insured Retention per Occurrence
Coverage		
All risk property	\$ 1,000,000,000	\$ 40,000
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

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

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

For the years ended June 30, 2014 and 2013, 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, 2014 and 2013, the approximate liability for unpaid compensated absences was \$14.4 million and \$15.0 million, respectively.

14. Commitments and Contingencies

Lease Commitments

DEVCO has operating leases for medical clinic facilities. Rental expense under these leases for fiscal years ended June 30, 2014 and 2013 was \$4,054,000 and \$4,020,000, respectively.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2014 and 2013

Future minimum rental commitments for years subsequent to June 30, 2014 are as follows:

(in thousands)

2015	\$	2,526,000
2016		2,002,000
2017		1,117,000
2018		755,000
2019		608,000
Thereafter		391,000
	\$	<u>7,399,000</u>

Litigation

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

Regulatory Environment

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

**Supplemental Pension and Post-Employment
Benefit Information**

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

Defined Benefit Retirement Plan

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

Fiscal Year Ended	Actuarially Determined Contribution	Actual Contribution
2005	\$ 3,673,000	\$ 1,478,000
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 ¹
2010	12,594,000	- ¹
2011	15,683,000	- ¹
2012	18,344,000	- ¹
2013	19,800,000	- ¹
2014	<u>18,500,000</u>	<u>134,026,000</u>
	<u>\$ 121,691,000</u>	<u>\$ 168,082,000</u>

¹ For the years 2009 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:

2009	\$ 22,000,000
2010	22,000,000
2011	22,000,000
2012	19,000,000
2013	<u>21,800,000</u>
	<u>\$ 106,800,000</u>

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.

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

The following table summarizes changes in net pension liability from July 1, 2012 to June 30, 2014:

	2014	2013
Total pension liability		
Service cost	\$ 5,456,000	\$ 6,580,000
Interest	20,223,000	19,283,000
Change in plan provisions	-	-
Difference between expected and actual experience	4,395,000	(5,173,000)
Change in assumptions	362,000	2,148,000
Benefit payments	<u>(11,483,000)</u>	<u>(9,298,000)</u>
Net change in total pension liability	18,953,000	13,540,000
Total pension liability (beginning of year)	<u>276,395,000</u>	<u>262,855,000</u>
Total pension liability (end of year)	<u>295,348,000</u>	<u>276,395,000</u>
Plan fiduciary net position		
Employer contributions	115,526,000	-
Net investment income	19,342,000	12,619,000
Benefit payments	(11,483,000)	(9,298,000)
Administrative expense	(62,000)	(69,000)
Other	<u>-</u>	<u>-</u>
Net change in fiduciary net position	123,323,000	3,252,000
Fiduciary net position (beginning of year)	<u>100,625,000</u>	<u>97,373,000</u>
Fiduciary net position (end of year)	<u>223,948,000</u>	<u>100,625,000</u>
Net pension liability (end of year)	<u>\$ 71,400,000</u>	<u>\$ 175,770,000</u>
Fiduciary net position as percent of liability	<u>75.8%</u> ¹	<u>36.4%</u>
Covered employee payroll	<u>144,445,000</u>	<u>145,324,000</u>
Net pension liability as percent of covered payroll	<u>49.4%</u> ²	<u>121.0%</u>
Deferred outflows of resources		
Employer contributions after measurement date	\$ 18,500,000	\$ -
¹ Fiduciary net position as percent of liability including deferred outflows of resources	82.1%	36.4%
² Net pension liability as percent of covered payroll including deferred outflows of resources	36.6%	121.0%

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

Defined Benefit Post-Retirement Medical Plan

The following table summarizes the number of total plan participants:

	2014	2013
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 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	Actuarial Value of Assets (a)					
July 1, 2012	\$ -	\$ 34,731,000	\$ (34,731,000)	0.0 %	\$ 149,927,000	(23.2)%
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)%

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

	Annual Required Contribution	Annual Contribution	Percentage Contributed
<i>(in thousands)</i>			
Fiscal Year			
July 1, 2011 - June 30, 2012	\$ 4,695,000	\$ 823,000	17.5%
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%

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

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

<i>(in thousands)</i>	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, 2011 - June 30, 2012	\$ 27,362,000	\$ 4,695,000	\$ 826,000	\$ 3,403,000	2,577,000	\$ 29,939,000
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

The following table summarizes the actuarial assumptions used to determine the Defined Benefit Post-Retirement Medical Plan liabilities as of June 30, 2014:

Valuation date	July 1, 2014
Measurement date	June 30, 2014
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