Washington Township Health Care District

Financial Statements
June 30, 2019 and 2018

Washington Township Health Care District
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June 30, 2019 and 2018

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Report of Independent Auditors

To the Washington Township Health Care District Board of Directors

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Washington Township Health Care District (the "District"), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Washington Township Health Care District as of June 30, 2019 and 2018, 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.

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Other Matter

The accompanying management's discussion and analysis on pages 3 through 23 and the required supplementary pension and postemployment benefits information on pages 65 through 70 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.

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PricewaterhouseCoopers LLP
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San Francisco, California
October 15, 2019

Overview of the Financial Statements

The annual report consists of Management's Discussion and Analysis, financial statements and notes to those statements. These statements are organized to present the Washington Township Health Care District (the District) and Washington Hospital Healthcare Foundation (the Foundation) as discrete financial entities, operating as a financial whole. Readers should also review the accompanying notes to the financial statements as they provide additional information that is essential to a full understanding of the District's and Foundation's financial statements.

The District is a political subdivision of the State of California organized under the Local Health Care District Law, as set forth in the Health and Safety Code of the State of California, and is considered a Local Government Agency. The District's mission is to provide broad healthcare services to its residents. The District's boundaries encompass an area of approximately 124 square miles in southern Alameda County. The District operates Washington Hospital (the Hospital), a 341-bed licensed acute care hospital located in Fremont, California.

The District is the sole corporate member of Washington Township Hospital Development Corporation (DEVCO). DEVCO was formed in 1984 to train medical personnel, develop medical treatment programs, perform medical research and development, and render medical services to the general public.

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

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

The accompanying financial statements include the accounts and transactions of the Hospital, DEVCO and WTMF. All significant inter-company accounts and transactions have been eliminated in the financial statements.

The statements of net position, the statements of revenues, expenses, and changes in net position, and statements of cash flows provide an indication of the District's and Foundation's financial health. The statements of net position include all of the District's and Foundation's assets, deferred outflows of resources, liabilities and deferred inflows of resources, using the accrual basis of accounting, as well as an indication about which portions of net position can be utilized for general purposes and which are restricted as a result of bond covenants, donor restrictions or other purposes. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses and increases and decreases in net position during the time period indicated that resulted from the District's and Foundation's operating and non-operating transactions during the year. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources and uses such as investment income, repayment of bonds, and capital additions and improvements.

Washington Township Health Care District

District Financial Highlights for Fiscal Year 2019

- The District generated an operating loss of $9.2 million for fiscal year 2019, compared with operating income of $19.0 million for fiscal year 2018, a decrease of $28.2 million. When non-operating revenues, expenses and special items are included, the District realized a $5.7 million decrease in net position for fiscal year 2019, compared with an increase of $28.0 million for fiscal year 2018.

- Major items that impacted the District's operating results for fiscal year 2019, as compared to those for fiscal year 2018, included:

  - Net patient revenues increased $14.8 million (2.9 percent), due primarily to a five percent increase in the number of adult and pediatric patient days (61,250) compared to the prior fiscal year (58,332).

  - Operating expenses increased $42.0 million (8.4 percent), primarily due to the increased inpatient volume and the opening of the Morris Hyman Critical Care Pavilion (the Hyman Pavilion) in November 2018, with salaries and benefits expense increasing by $22.9 million (7.9 percent), depreciation expense increasing by $9.8 million (28.8 percent) and supplies expense increasing by $5.2 million (8.6 percent).

  - The Morris Hyman Critical Care Pavilion (the Hyman Pavilion) opened on November 13, 2018. The Hyman Pavilion was built in response to an unfunded State mandate. Under California State regulations, effective January 1, 2030, California hospital buildings must meet requirements that are intended to enable them to remain operational after a significant earthquake. Most of the funding burden related to this requirement is the responsibility of the hospitals and their communities. The Hyman Pavilion is the largest public works project in the history of the District, and its opening represents a pivotal moment for the community.

    The multi-story, 224,800-square-foot building expands the District's ability to meet the community's growing health care needs. The structure is built on a sophisticated base isolation system; making it one of the most seismically-sound structures in the southeast Bay Area. This advanced technology is designed to protect the Hyman Pavilion from severe damage in the event of an earthquake up to a 7.9 in magnitude. This safety feature will enable the Hospital to remain open to the community, at a time when medical services will be needed most.

    The first floor of the Pavilion features a new Emergency Department (ED), which is four times the size of the former ED. On the second floor is a state-of-the-art Critical Care Unit with 48 beds, doubling the number of patients that can be served. The third floor has another 68 medical surgical beds. In the new family-friendly design, every patient has their own room for comfort, safety and privacy. Patient rooms have floor-to-ceiling windows for maximum natural light, which promotes patient healing.

Analysis of the District's Net Position – Fiscal Year 2019

- Total assets decreased $52.4 million, from $1,139.4 million at June 30, 2018 to $1,087.0 million at June 30, 2019. Total available cash and investments decreased $59.2 million, from $309.7 million to $250.5 million. Bond drawdowns, to reimburse construction-related payments, resulted in a decrease in unexpended capital bond funds of $43.2 million. Capital assets, net, increased $0.3 million, from $738.5 million to $738.8 million. In November 2018, as discussed above, the Hyman Pavilion was placed into service, replacing the previous emergency and critical care units with expanded state-of-the-art facilities.

- Total liabilities decreased $46.7 million, from $819.2 million at June 30, 2018 to $772.5 million at June 30, 2019. The primary contributor to this decrease was the net postemployment medical liability (OPEB) which decreased by $33.0 million, from $70.3 million to $37.3 million, due to a change in the discount rate used to value the obligation. Current liabilities decreased by $24.0 million from $129.0 million to $105.0 million, attributable primarily to reductions in amounts payable for Pavilion construction costs. Although the OPEB obligation decreased by $33.0 million, the pension obligation increased by $21.1 million due to investment losses incurred during calendar year 2018.

- Total net position of $337.1 million at June 30, 2019 was $5.7 million less than the net position of $342.8 million at June 30, 2018.

Table 1 provides a summary of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2019, 2018 and 2017:

(in thousands)	2019	2018	2017
Assets			
Current assets	$ 161,238	$ 175,338	$ 180,465
Long-term investment and restricted funds	181,568	222,586	251,321
Capital assets, net	738,844	738,497	680,394
Other assets	5,357	2,992	7,808
Total assets	1,087,007	1,139,413	1,119,988
Deferred outflows of resources	67,493	44,150	38,609
Total assets and deferred outflows of resources	$ 1,154,500	$ 1,183,563	$ 1,158,597
Liabilities			
Current liabilities	$ 104,981	$ 129,041	$ 121,987
Net pension liability	63,510	42,389	61,754
Net postemployment medical benefits (OPEB)	37,299	70,252	62,800
Long-term debt	560,701	571,031	580,067
Other long-term liabilities	5,970	6,445	6,950
Total liabilities	772,461	819,158	833,558
Deferred inflows of resources	44,923	21,603	10,262
Net position			
Net investment in capital assets	187,907	222,739	215,399
Restricted - expendable	29,276	32,216	27,614
Restricted for minority interest	4,301	4,799	4,527
Unrestricted	115,632	83,048	67,237
Total net position	337,116	342,802	314,777
Total liabilities, net position and deferred inflows of resources	$ 1,154,500	$ 1,183,563	$ 1,158,597

Table 2 provides a summary of total available cash and investments as of June 30, 2019, 2018 and 2017.

(in thousands)	2019	2018	2017
Cash and cash equivalents and short-term investments	$ 68,921	$ 87,075	$ 102,447
Board-designated fund – funded depreciation	151,688	147,128	115,571
Workers' compensation fund	8,967	8,593	11,898
Unexpended capital bond funds, excluding amounts required for current liabilities	20,872	64,063	121,051
Specific purpose fund	41	2,802	2,801
Total available cash and investments	$ 250,489	$ 309,661	$ 353,768

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

Capital Assets, Net (2019)

Capital assets, net, increased $0.3 million, from $738.5 million at June 30, 2018 to $738.8 million at June 30, 2019. This increase resulted from $41.9 million in capital additions and $5.8 million in net capitalized interest expense, offset by $47.3 million in depreciation. The net capital additions included $63.2 million in equipment, building, and land improvements combined with a decrease of $21.3 million in construction in progress, primarily related to the Hyman Pavilion, which was completed on time and on budget, and which was placed in service in November 2018. At June 30, 2019, outstanding commitments related to capital projects totaled $4.6 million.

Debt Administration (2019 and 2018)

As part of the obligations under the bond indentures for the 2009, 2010, 2015, 2017A and 2017B Series Revenue Bonds, the District has agreed that the Hospital will maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. As of June 30, 2019, the Hospital's long-term debt service coverage ratio was 3.5 to 1.0. For the year ended June 30, 2018, the Hospital's long-term debt service coverage ratio was 4.3 to 1.0. During the years ended June 30, 2019 and 2018, the Hospital's Moody's rating of Baa1 (outlook negative) for its revenue bonds was unchanged.

The Hospital's percentage of debt-to-capitalization, excluding general obligation bonds, of 30.7 percent at June 30, 2019, was lower than the percentage of 32.1 percent at June 30, 2018. The decrease in percentage reflects the combined effect of the $7.2 million reduction in outstanding debt, excluding general obligation bonds, and the $16.3 million increase in the Hospital's net position.

Revenue and Expense Analysis for the District – Fiscal Year 2019

Table 3 shows the revenues, expenses, and changes in net position for the District for the years ended June 30, 2019, 2018 and 2017:

(in thousands)	2019	2018	2017
Operating revenues			
Net patient service revenues	$ 520,294	$ 505,529	$ 489,952
Other	14,686	15,655	14,752
Total operating revenues	534,980	521,184	504,704
Operating expenses			
Salaries and wages	227,166	209,685	201,339
Employee benefits	85,640	80,189	74,411
Supplies	65,798	60,562	58,701
Professional fees	66,348	65,044	70,077
Purchased services	40,626	38,752	38,212
Depreciation	43,829	34,032	34,807
Insurance	1,708	1,218	1,264
Other operating expenses	13,081	12,748	14,415
Total operating expenses	544,196	502,230	493,226
Operating income	(9,216)	18,954	11,478
Non-operating revenues and expenses, net	7,066	10,304	6,947
Increase in net position before minority interest and restricted funds	(2,150)	29,258	18,425
Additional minority interest capital received	349	-	-
Minority interest distributions	(1,483)	(1,234)	(1,608)
Morris Hyman Critical Care Pavilion Transition	(2,402)	-	-
Special Use Grant	-	1	-
Increase in net position	(5,686)	28,025	16,817
Net position			
Beginning of year	342,802	314,777	320,160
Impact of adoption of GASB 75	-	-	(22,200)
End of year	$ 337,116	$ 342,802	$ 314,777

Net Patient Service Revenues

The District receives Federal funds through the Medicare program and State funds through the Medi-Cal program. The District also receives funds through the Alameda County Medi-Cal HMO program. These government payors account for approximately 71 percent of the District's gross revenues. Commercial preferred provider organizations (PPOs) and health maintenance organizations (HMOs) together comprise approximately 25 percent of gross revenues, with the balance of gross revenues attributable to uninsured individuals.

Net patient service revenues increased by $14.8 million (2.9 percent), from $505.5 million in fiscal year 2018 to $520.3 million in fiscal year 2019.

Inpatient Business Activity

The District's gross inpatient revenue increased by $0.3 million (0.0 percent), from $1,495.3 million in fiscal year 2018 to $1,495.6 million in fiscal year 2019.

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

	2019 Days	2018 Days	% Change
Specialty			
Medical/surgical	47,364	45,094	5.0 %
Critical care	7,742	6,663	16.2 %
Special care nursery	1,319	1,521	(13.3)%
Pediatrics	378	332	13.9 %
Obstetrics	4,447	4,722	(5.8)%
Subtotal adult and pediatric patient days	61,250	58,332	5.0 %
Newborn	3,238	3,408	(5.0)%
Total patient days	64,488	61,740	4.5 %

Although admissions decreased by 457 (3.7 percent) from 12,441 in fiscal year 2018 to 11,984 in fiscal year 2019, the average length of stay increased 9.1 percent, from 4.63 to 5.05 days, resulting in an increase in adult and pediatric patient days of 2,918 (5.0 percent), as indicated in Table 4 above.

The overall case mix index for the District, which is a measure of patient acuity, decreased to 1.463 in fiscal year 2019, as compared to 1.484 in fiscal year 2018. The Medicare case mix index for the same period decreased from 1.657 to 1.628.

Inpatient surgeries decreased by 490 (14.9 percent), from 3,292 in fiscal year 2018 to 2,802 in fiscal year 2019. A significant factor in this decrease was the transition from inpatient to outpatient of knee replacement surgeries due to a change in Medicare regulations.

Inpatient catheterization lab procedures increased by 398 (20.3 percent), from 1,962 to 2,360 in fiscal year 2018 and 2019, respectively. The increase in this area is attributable to expansion of the District's interventional radiology program.

Deliveries decreased by 113 (6.8 percent), from 1,655 to 1,542.

Outpatient Business Activity

The District's gross outpatient revenue increased by $138.4 million (22.7 percent), from $609.9 million in fiscal year 2018 to $748.3 million in fiscal year 2019. The largest component of this increase was related to outpatient surgical revenues.

Emergency room visits decreased by 113 (0.2 percent) from 51,835 in fiscal year 2018 to 51,722 in fiscal year 2019; however, outpatient visits increased by 3,101 (3.6 percent) from 87,005 to 90,106 in fiscal 2019.

Outpatient surgeries performed at the hospital in fiscal year 2019 increased by 763 (76.8 percent), from 993 to 1,756. As mentioned above, the transition of knee replacement surgeries from inpatient to outpatient was a primary contributor to this increase.

Outpatient catheterization lab procedures decreased by 102 (5.3 percent) from 1,940 to 1,838.

Outpatient visits at Washington Township Medical Foundation increased by 16,358 (9.3 percent) from 175,197 in fiscal year 2018 to 191,555 in fiscal year 2019. The main factors contributing to the increase were the acquisitions of a primary care and a urology practice during fiscal year 2019.

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 74.57 percent and 73.93 percent for fiscal year 2019 and 2018, respectively. The increase resulted from a slight increase in the proportion of patients covered by government payors, compounded by small increases in contractual rates for almost all payors.

Charity Care

The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $2.7 million and $4.1 million in foregone charges related to charity care for patient services during fiscal years 2019 and 2018, respectively. Patients who are eligible for charity care are generally those without insurance who also meet income eligibility criteria. Private pay revenues increased to $54.2 million in fiscal year 2019 from $49.0 million in fiscal year 2018.

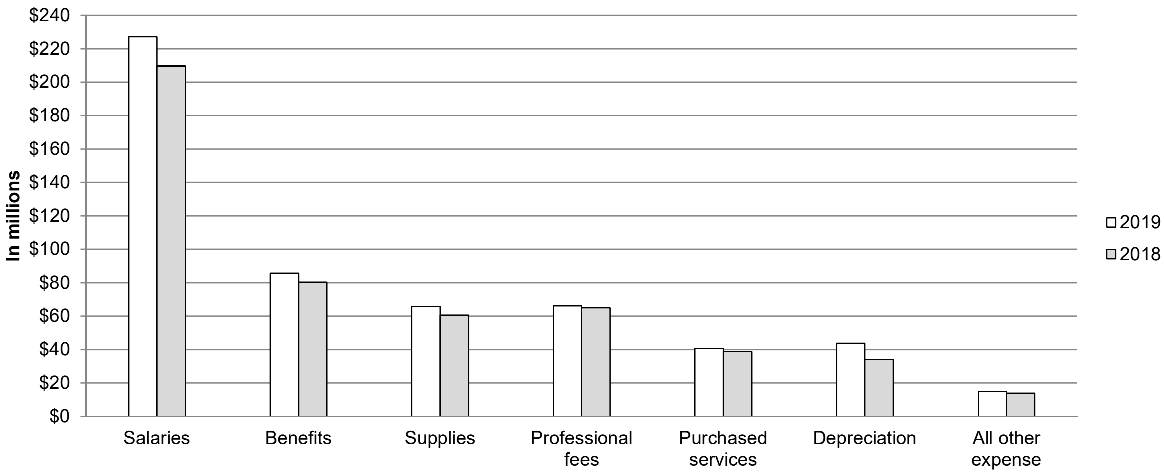
In addition to the charity care described above, the estimated cost in excess of reimbursement for medically indigent patients under Medi-Cal and Medi-Cal managed care programs was $67 million and $57 million in fiscal years 2019 and 2018, respectively, and uncompensated services with an estimated total cost of more than $150 million in fiscal year 2019 and $128 million in fiscal year 2018, were provided to Medicare and Medicare managed care patients.

Provision for Bad Debt

The provision for bad debt (expressed as a percentage of gross revenues) was 2.22 percent in fiscal year 2019, compared to 2.01 percent in fiscal year 2018.

Operating Expenses

Total operating expenses were $544.2 million and $502.2 million for fiscal years 2019 and 2018, respectively, as summarized in the graph below:



Total operating expenses increased by 42.0 million (8.4 percent) from 2018 to 2019, with the largest dollar increase ($17.5 million) attributable to salaries and wages expense, and the next largest dollar increase attributable to depreciation ($9.8 million). Benefits expense increased by $5.4 million and supplies expense increased by $5.2 million.

Salaries and Benefits

- Salaries and wages increased by $17.5 million (8.3 percent). As of June 2019, approximately 64 percent of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various Memoranda of Understanding (MOU) that have been approved by the District's Board of Directors. The increase in salaries and wages was attributable to an increase in full time equivalents (see below) combined with increases in wage rates under the MOUs. The District considers the increases under the MOUs to be in line with the current local wage environment.

- Total District's full time equivalents (FTEs) at June 30, 2019 were 1,760, an increase of 59 FTEs (3.5 percent) over the 1,701 FTEs at June 30, 2018. The Hospital FTEs at June 30, 2019 were 1,484, an increase of 55 FTEs (3.8 percent) over the 1,429 FTEs at June 30, 2018. The increase in Hospital FTEs was primarily attributable to the opening of the Hyman Pavilion in November 2018.

- Benefits expense increased by $5.4 million (6.7 percent). The key factor contributing to this change was an increase in pension expense of $6.6 million (41.5 percent) over fiscal year 2018. The increase was attributable to unfavorable investment performance of pension plan assets during calendar year 2018. Partially offsetting this increase, OPEB plan expense was lower due to a change in the discount rate assumption which was the result of establishing and contributing to a trust account to fund these obligations.

Other Operating Expenses

- Supplies expense increased $5.2 million (8.6 percent) in fiscal year 2019, with the majority of the increase related to expenses for pharmaceuticals, which increased by $2.0 million (18.9 percent). This increase was associated with a growth in infusion volumes by 27.3 percent. In addition, expenses for prosthetics and other implants increased by $1.1 million (7.7 percent) as a result of growth in joint procedures by 5.6 percent, and expenses for cardiovascular and neurology supplies increased by $0.9 million (31.0 percent). Depreciation increased by $9.8 million (28.8 percent) and insurance expense increased by $0.5 million (41.7 percent) in fiscal year 2019. These increases were associated with the Hyman Pavilion's placement in-service in November 2018.

Non-operating Revenues and Expenses, Net

Non-operating revenues and expenses, net, decreased $3.2 million in fiscal year 2019. The most significant changes in non-operating activity for fiscal year 2019 were the following items:

- Net interest expense increased by $10.8 million. Although total interest cost for fiscal year 2019 was $0.3 million less in fiscal year 2019 than in fiscal year 2018, capitalized interest for fiscal year 2019 was $11.2 million lower than the amount for fiscal year 2018, resulting in higher net interest expense. Interest can only be capitalized while construction is in progress. In November 2018, the Hyman Pavilion construction project was placed in service which reduced the amount of interest capitalized to construction projects. The District's construction projects were reduced to $10.4 million at June 30, 2019 from $392.2 million at June 30, 2018.

- The fair value of investments increased by $6.3 million in fiscal year 2019.

- Bond issuance costs of $0.9 million expensed in fiscal year 2019 were related to the July 1, 2019 refinancing of revenue and general obligation bonds in order to take advantage of favorable market interest rates. No such costs were incurred in fiscal year 2018.

Other Changes – Morris Hyman Critical Care Pavilion Transition Costs

Concurrent with the opening of the Hyman Pavilion, patients were moved into the building and building operations commenced on November 13, 2018. The Pavilion move was anticipated and within the control of management. Although the nature of the expenses (wages and training) was not unusual for the District, the expenses were significant and infrequent and, accordingly, qualified for treatment as a special item, reported separately before extraordinary items. The total amount of the Hyman Pavilion Transition costs was $2.4 million.

Payments from Federal and State Health Care Programs

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

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

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

Health Care Reform

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

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

In 2013, automatic spending reduction provisions of the Budget Control Act of 2011 went into effect and they remain in effect as of June 30, 2019. These spending reductions, also known as sequestration reductions, resulted in an on-going two percent reduction in all Medicare spending. The reduction in reimbursement for fiscal years 2019 and 2018 was $2.2 million and $2.0 million, respectively.

In addition to sequestration reductions, Medicare Disproportionate Share (DSH) payments to eligible hospitals were significantly reduced in 2014. DSH payments are intended to partially offset the losses that providers incur when serving a disproportionate number of Medicare beneficiaries, as compared to other providers. For fiscal years 2019 and 2018, DSH payments received were $5.8 million and $6.2 million, respectively.

Meaningful Use of Electronic Health Records

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

Economic Factors Expected to Affect the District's 2020 Operations

The Board of Directors of the District approved the fiscal year 2020 operating budget at their June 2019 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. Fiscal year 2020 will be the first full year of activity for the Hyman Pavilion, resulting in increases in almost all of the operating expense categories.

The fiscal year 2020 budget anticipates a 3.2 percent increase in operating expenditures from the fiscal year 2019 level. This increase includes a 1.6 percent increase in salaries and wages, which includes the effects of a small projected decline in patient volumes, in combination with contractual salary increases. In addition, depreciation expense for fiscal year 2020 is projected to increase by approximately $7.5 million (17 percent) primarily due to a full year of depreciation on the Hyman Pavilion. In addition to the operating expense increases, interest expense is anticipated to increase by approximately $6.5 million (36 percent) due to the significant reduction in open construction projects available for capitalized interest now that the Hyman Pavilion has been placed in service.

At the same time, downward pressures on reimbursement are expected to continue. In estimating net revenues for fiscal year 2020, District staff has attempted to incorporate the continued effects of the changes in payments from government, commercial and third party payors, based on the available information. Likewise, the future state of the Bay Area economy, which is also difficult to predict, could have a significant impact on the District's operations. Additional legislation at either the State or Federal level may affect the accuracy of many of the assumptions included in the budget estimate.

Washington Hospital Healthcare Foundation

Foundation Financial Highlights for Fiscal Year 2019

- Total assets of $5.8 million at June 30, 2019 decreased by $2.1 million from the balance at June 30, 2018 of $7.9 million. Total cash and investments decreased $1.0 million, from $4.9 million to $3.9 million, while net contributions receivable decreased $1.2 million from $3.0 million to $1.8 million.

- Net assets of $5.8 million at June 30, 2019 were $2.1 million lower than at June 30, 2018.

Analysis of the Foundation's Net Assets – Fiscal Year 2019

Table 5 provides a summary of the Foundation's assets, liabilities, and net assets as of June 30, 2019, 2018 and 2017:

(in thousands)	2019	2018	2017
Assets			
Cash and cash equivalents	$ 1,114	$ 1,550	$ 1,230
Contributions receivable, net	1,827	2,962	1,324
Short term investments held by district on behalf of foundation	2,376	2,860	3,807
Long term investments, unrestricted	110	-	107
Prepaid expenses and other	42	-	-
Investments	307	535	1,619
Total assets	$ 5,776	$ 7,907	$ 8,087
Liabilities			
Accounts payable and accrued expenses	$ -	$ 26	$ 26
Total liabilities	-	26	26
Net assets			
Restricted - expendable	5,631	7,848	7,723
Unrestricted	145	33	338
Total net assets	5,776	7,881	8,061
Total liabilities and net assets	$ 5,776	$ 7,907	$ 8,087

In fiscal year 2019, the Foundation's cash and investment position, including State of California Local Agency Investment Fund (LAIF) investments held by the District on behalf of the Foundation, decreased $1.0 million, from $4.9 million at June 30, 2018 to $3.9 million at June 30, 2019.

Table 6 provides a summary of cash and investments for the Foundation as of June 30, 2019, 2018 and 2017:

(in thousands)	2019	2018	2017
Cash and cash equivalents	$ 1,114	$ 1,550	$ 1,230
Money market and certificates of deposit	417	535	533
Equity mutual fund	-	-	1,193
	1,531	2,085	2,956
LAIF held by District on behalf of Foundation	2,376	2,860	3,807
Total available cash and investments	$ 3,907	$ 4,945	$ 6,763

Revenue and Expense Analysis for the Foundation – Fiscal Year 2019

Table 7 shows the Foundation's activities and changes in net position for 2019, 2018 and 2017:

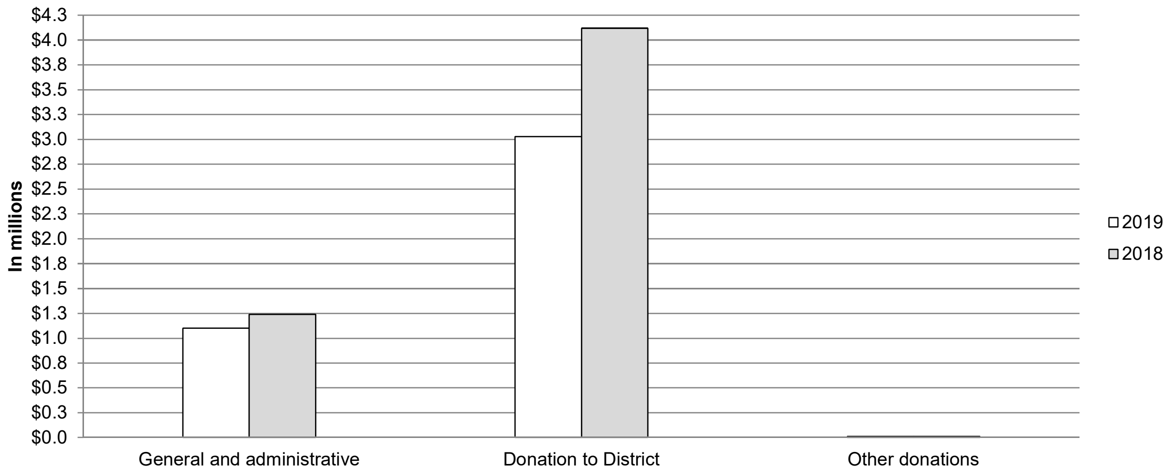
(in thousands)	2019			2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues, gains, and support									
Contributions	$ 289	$ 1,053	$ 1,342	$ 5	$ 4,518	$ 4,523	$ 3	$ 1,612	$ 1,615
Contributed services	575	63	638	545	27	572	670	32	702
Investment income	53	-	53	92	-	92	58	-	58
Unrealized gain (loss) on investments	-	-	-	-	-	-	163	-	163
	917	1,116	2,033	642	4,545	5,187	894	1,644	2,538
Net assets released from restrictions	3,333	(3,333)	-	4,450	(4,450)	-	1,021	(1,021)	-
Total revenues, gains, and support	4,250	(2,217)	2,033	5,092	95	5,187	1,915	623	2,538
Expenses									
General and administrative	1,103	-	1,103	1,235	-	1,235	1,276	-	1,276
Donation to Pathways Hospice	10	-	10	5	-	5	10	-	10
Donation to HERS Breast Cancer Foundation	-	-	-	-	-	-	-	-	-
Donation to Washington Hospital Service League	-	-	-	8	-	8	3	-	3
Donation to District	3,025	-	3,025	4,119	-	4,119	659	-	659
Total expenses	4,138	-	4,138	5,367	-	5,367	1,948	-	1,948
Increase (decrease) in net position	112	(2,217)	(2,105)	(275)	95	(180)	(33)	623	590
Net position									
Beginning of year	33	7,848	7,881	338	7,723	8,061	397	7,074	7,471
Transfers	-	-	-	(30)	30	-	(26)	26	-
End of year	$ 145	$ 5,631	$ 5,776	$ 33	$ 7,848	$ 7,881	$ 338	$ 7,723	$ 8,061

Revenues, Gains and Support

The Foundation's total revenues, gains and support decreased $3.2 million from $5.2 million in fiscal year 2018 to $2.0 million in fiscal year 2019. Several individually large gifts restricted for the construction and equipping of the Hyman Pavilion, which was nearing completion as of the end of fiscal year 2018, in addition to a highly successful employee giving campaign effort, accounted for the significant amount of contribution revenue in that year. Contributions of $1.3 million in fiscal year 2019 were $3.2 million less than the $4.5 million recorded in fiscal year 2018.

Expenses

Total expenses for the Foundation decreased by $1.2 million from $5.4 million in fiscal year 2018 to $4.2 million in fiscal year 2019 (including the transfer of $2.7 million in funds designated for equipment for the Hyman Pavilion), as summarized in the graph below:



District Financial Highlights for Fiscal Year 2018

- During the twelve months ended June 30, 2018 (fiscal year 2018), the District adopted Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (OPEB)* (GASB 75). This adoption was similar to the District's fiscal 2014 adoption of GASB 68, which applied to pension plans, except that GASB 75 applies to reporting for the costs and obligations related to the District's Retiree Medical Benefits Plans. The adoption of GASB 75 required retroactive restatements of certain amounts reported as of July 1, 2016, with related impacts on the ending balances as of June 30, 2017.

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

- The District generated operating income of $19.0 million for fiscal year 2018, compared with operating income of $11.5 million for fiscal year 2017, an increase of $7.5 million. When non-operating revenues, expenses and special items are included, the District realized a $28.0 million increase in net position for fiscal year 2018, compared with an increase of $16.8 million for fiscal year 2017.

- Major items that impacted the District's operating results for fiscal year 2018, as compared to those for fiscal year 2017, included:

  - Net patient revenues increased $15.6 million (3.2 percent), due primarily to improved collections, increases in supplemental funding receipts and decreases in previously recorded reserves.

  - Other revenue increased $0.9 million due to additional contributions received from the Foundation. Current year donations of $4.1 million were primarily related to the Morris Hyman Critical Care Pavilion (the Hyman Pavilion). The Hyman Pavilion has been under construction for the past several years and is nearing completion, with a projected opening date in fall 2018.

  - Operating expenses increased $9.0 million (1.8 percent), with salaries and benefits increasing by $14.1 million (5.1 percent), professional fees decreasing by $5.0 million (7.2 percent), and the total of all other expenses remaining consistent with the comparable total for the prior year.

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

- Total assets increased $19.4 million, from $1,120.0 million at June 30, 2017 to $1,139.4 million at June 30, 2018. Total available cash and investments decreased $44.1 million, from $353.8 million to $309.7 million. Capital assets, net, increased $58.1 million, from $680.4 million to $738.5 million due primarily to ongoing construction costs related to the Hyman Pavilion.

- Total liabilities decreased $14.4 million, from $833.6 million at June 30, 2017 to $819.2 million at June 30, 2018. Accounting for the majority of this decrease, the net pension liability decreased by $19.4 million, from $61.8 million to $42.4 million. Current liabilities increased by $7.0 million from $122.0 million to $129.0 million, attributable primarily to increases in the current portion of long-term debt ($1.9 million) and related interest payable ($1.8 million) and a $3.0 million increase in accounts payable and accrued expenses. Although the obligation for post-retirement employee medical benefits increased by $7.5 million, decreases in the current portion of principal payments due, along with amortization of issuance discounts and premiums reduced outstanding long-term debt obligations by $9.0 million.

- Total net position of $342.8 million at June 30, 2018 was $28.0 million more than the net position of $314.8 million at June 30, 2017.

Capital Assets, Net (2018)

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

Debt Administration (2018 and 2017)

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

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

Revenue and Expense Analysis for the District – Fiscal Year 2018

Net Patient Service Revenues

The District receives Federal funds through the Medicare program and State funds through the Medi-Cal program. The District also receives funds through the Alameda County Medi-Cal HMO program. These government payors account for approximately 70 percent of the District's gross revenues. Commercial preferred provider organizations (PPOs) and health maintenance organizations (HMOs) together comprise approximately 27 percent of gross revenues, with the balance of gross revenues attributable to uninsured individuals.

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

Inpatient Business Activity

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

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

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

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

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

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

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

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

Outpatient Business Activity

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

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

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

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

Deductions from Revenue

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

Charity Care

The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $4.1 million and $3.3 million in foregone charges related to charity care for patient services during fiscal years 2018 and 2017, respectively. Patients who are eligible for charity care are generally those without insurance who also meet income eligibility criteria. Private pay revenues increased to $49.0 million in fiscal year 2018 from $41.6 million in fiscal year 2017.

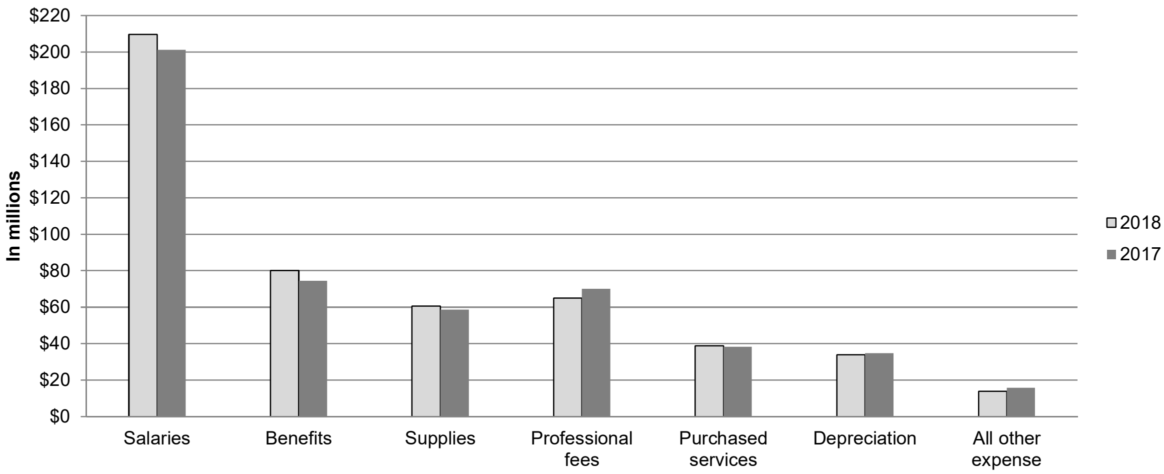
In addition to the charity care described above, the estimated cost in excess of reimbursement for indigent patients under Medi-Cal and Medi-Cal managed care programs was $57 million and $55 million in fiscal years 2018 and 2017, respectively, and uncompensated services with an estimated total cost of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

Provision for Bad Debt

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

Operating Expenses

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



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

Salaries and Wages

- Salaries and wages increased by $8.3 million (4.1 percent). As of June 2018, approximately 64 percent of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various Memoranda of Understanding (MOU) that have been approved by the District's Board of Directors. Increases under the MOUs, which the District considers to be in line with the current local wage environment, accounted for the majority of the increase in salaries expense.

- Total District FTEs at June 30, 2018 were 1,701, an increase of 32 FTEs (1.9 percent) over the 1,669 FTEs at June 30, 2017. The Hospital FTEs at June 30, 2018 were 1,429, an increase of 16 FTEs (1.1 percent) over the 1,413 FTEs at June 30, 2017.

- Benefits expense increased by $5.8 million (7.8 percent). The overall rate of increase in benefit costs exceeded the rate of wage increases, with significant increases experienced in health insurance claims costs ($4.1 million), employer payroll taxes ($0.6 million) and payments related to the Hospital's deferred contribution plan ($0.3 million).

Other Operating Expenses

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

Non-operating Revenues and Expenses, net

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

- Net interest expense decreased by $1.7 million. Although total interest cost for fiscal year 2018 was virtually the same as for fiscal year 2017, capitalized interest for fiscal year 2018 increased by $1.6 million over the amount for fiscal year 2017, resulting in lower net interest expense.

- Bond issuance costs of $1.3 million were incurred in fiscal year 2017 in relation to additional revenue bonds being issued and/or refinanced. No such costs were incurred in fiscal year 2018.

Washington Hospital Healthcare Foundation

Foundation Financial Highlights for Fiscal Year 2018

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

- Net assets of $7.9 million at June 30, 2018 were $0.2 million lower than at June 30, 2017.

Analysis of the Foundation's Cash and Investments – Fiscal Year 2018

In fiscal year 2018, the Foundation's cash and investment position, including State of California Local Agency Investment Fund (LAIF) investments held by the District on behalf of the Foundation, decreased $1.9 million, from $6.8 million at June 30, 2017 to $4.9 million at June 30, 2018.

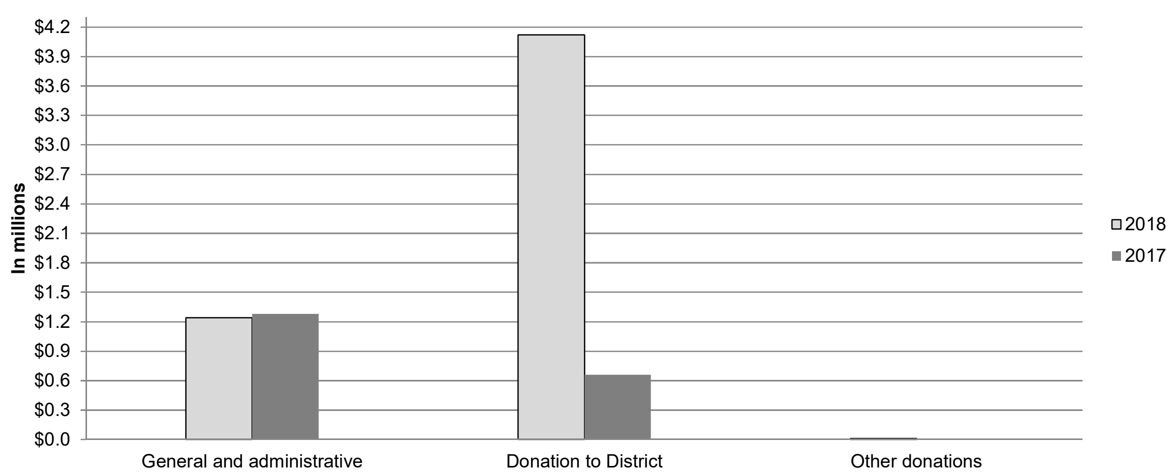
Revenue and Expense Analysis for the Foundation – Fiscal Year 2018

Revenues, Gains and Support

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

Expenses

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



Washington Township Health Care District
Statements of Net Position
June 30, 2019 and 2018

(in thousands)	District 2019	District 2018	Foundation 2019	Foundation 2018
Assets				
Current assets				
Cash and cash equivalents	$ 35,335	$ 33,307	$ 1,114	$ 1,550
Short-term investments	33,586	53,768	307	535
Short-term investments held by District on behalf of Foundation	-	-	2,376	2,860
Patient accounts receivable, less allowance for estimated uncollectibles of $26,053 and $22,236 in 2019 and 2018, respectively	76,052	65,794	-	-
Contributions receivable, net, due in less than 1 year	-	-	94	90
Due from third party payors	-	330	-	-
Supplies	3,659	3,530	-	-
Other receivables	6,501	11,602	-	-
Prepaid expenses and other	6,105	7,007	42	-
Total current assets	161,238	175,338	3,933	5,035
Long-term investment and restricted funds				
Board-designated for capital, debt and workers' compensation	160,655	155,721	-	-
Held by trustee	20,872	64,063	-	-
Restricted funds	41	2,802	-	-
Unrestricted	-	-	110	-
Capital assets, net	738,844	738,497	-	-
Other assets				
Contributions receivable, net, due in more than 1 year	-	-	1,733	2,872
Other noncurrent assets	5,357	2,992	-	-
Total assets	1,087,007	1,139,413	5,776	7,907
Deferred outflows of resources				
Deferred outflows of resources - goodwill	4,033	4,705	-	-
Deferred outflows of resources - postemployment medical benefits (OPEB)	4,786	7,471	-	-
Deferred outflows of resources - pension	58,674	31,974	-	-
Total deferred outflows	67,493	44,150	-	-
Total assets and deferred outflows of resources	$ 1,154,500	$ 1,183,563	$ 5,776	$ 7,907
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	$ 8,892	$ 7,491	$ -	$ -
Accounts payable and accrued expenses	26,847	47,822	-	26
Due to foundation	2,376	2,860	-	-
Due to third party payors	3,508	6,466	-	-
Accrued liabilities				
Payroll related	13,048	11,310	-	-
Vacation	16,175	15,277	-	-
Health benefits	4,325	4,889	-	-
Interest	11,933	12,090	-	-
Other	17,877	20,836	-	-
Total current liabilities	104,981	129,041	-	26
Long-term liabilities				
Workers' compensation claims	5,970	6,445	-	-
Net pension liability	63,510	42,389	-	-
Net postemployment medical benefits (OPEB)	37,299	70,252	-	-
Long-term debt, net of current maturities	224,877	232,292	-	-
Long-term debt, general obligation bonds	335,824	338,739	-	-
Total long-term liabilities	667,480	690,117	-	-
Total liabilities	772,461	819,158	-	26
Deferred inflows of resources				
Deferred inflows of resources - postemployment medical benefits (OPEB)	25,487	1,387	-	-
Deferred inflows of resources - pension	19,436	20,216	-	-
Total deferred inflows	44,923	21,603	-	-
Net position				
Net investment in capital assets	187,907	222,739	-	-
Restricted - expendable	29,276	32,216	5,631	7,848
Restricted for minority interest - nonexpendable	4,301	4,799	-	-
Unrestricted	115,632	83,048	145	33
Total net position	337,116	342,802	5,776	7,881
Total liabilities, deferred inflows of resources and net position	$ 1,154,500	$ 1,183,563	$ 5,776	$ 7,907

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, 2019 and 2018

(in thousands)	District		Foundation	
	2019	2018	2019	2018
Operating revenues				
Net patient service revenues	$ 520,294	$ 505,529	$ -	$ -
Other	11,661	11,536	-	-
Contributions	3,025	4,119	1,342	4,523
Contributed services	-	-	638	572
Total operating revenues	534,980	521,184	1,980	5,095
Operating expenses				
Salaries and wages	227,166	209,685	-	-
Employee benefits	85,640	80,189	-	-
Supplies	65,798	60,562	-	-
Professional fees	66,348	65,044	-	-
Purchased services	40,626	38,752	-	-
Depreciation	43,829	34,032	-	-
Insurance	1,708	1,218	-	-
Donations	-	-	3,035	4,132
Other operating expenses	13,081	12,748	1,103	1,235
Total operating expenses	544,196	502,230	4,138	5,367
Operating income (loss)	(9,216)	18,954	(2,158)	(272)
Non-operating revenues and expenses				
Investment income	4,279	3,494	53	92
Net increase (decrease) in the fair value of investments	3,638	(2,710)	-	-
Interest expense, including amortization of premiums and discounts on bonds payable	(17,786)	(6,984)	-	-
Property tax revenue	17,185	16,260	-	-
Bond issuance costs	(930)	-	-	-
Other non-operating income	680	244	-	-
Total non-operating revenues and expenses	7,066	10,304	53	92
Increase (decrease) in net position before other changes	(2,150)	29,258	(2,105)	(180)
Minority interest - additional contributions from	349	-		
Minority interest - distributions to	(1,483)	(1,234)	-	-
Morris Hyman Critical Care Pavilion Transition	(2,402)	-	-	-
Special Use Grant	-	1	-	-
Increase (decrease) in net position after other changes	(5,686)	28,025	(2,105)	(180)
Net position				
Beginning of year	342,802	314,777	7,881	8,061
End of year	$ 337,116	$ 342,802	$ 5,776	$ 7,881

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

Washington Township Health Care District
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

(in thousands)	District 2019	District 2018	Foundation 2019	Foundation 2018
Cash flows from operating activities				
Cash received from patient service activities	$ 510,036	$ 504,363	$ -	$ -
Other cash receipts	11,661	11,536	2,477	2,987
Cash payments to suppliers	(191,944)	(182,733)	(533)	(663)
Cash payments to employees and employee benefit programs	(322,589)	(293,618)	-	-
Net cash provided by (used in) operating activities	7,164	39,548	1,944	2,324
Cash flows from noncapital financing activities				
Donation from Foundation to District	3,025	4,119	(3,025)	(4,119)
Sale of net assets to minority shareholders in Washington Outpatient Surgery Center, LLC	349	-	-	-
Net assets distributed to minority shareholders in Washington Outpatient Surgery Center, LLC	(1,483)	(1,234)	-	-
Morris Hyman Critical Care Pavilion Transition	(2,402)	-		
Other donations	-	-	(10)	(13)
Net cash provided by (used in) noncapital financing activities	(511)	2,885	(3,035)	(4,132)
Cash flows from capital and related financing activities				
Purchases of capital assets	(62,970)	(79,025)	-	-
Principal paid on debt	(7,585)	(5,647)	-	-
Interest paid on debt	(26,590)	(25,099)	-	-
Proceeds from property taxes levied by the County	17,857	17,055	-	-
Net cash provided by (used in) capital and related financing activities	(79,288)	(92,716)	-	-
Cash flows from investing activities				
Purchases of investments	(200,254)	(195,945)	(68)	(3,070)
Sales of investments	265,092	218,247	670	5,290
Investment income	5,641	4,600	53	(92)
Other Non-operating income received	4,184	4,286	-	-
Net cash provided by (used in) investing activities	74,663	31,188	655	2,128
Net increase (decrease) in cash and cash equivalents	2,028	(19,095)	(436)	320
Cash and cash equivalents				
Beginning of year	33,307	52,402	1,550	1,230
End of year	$ 35,335	$ 33,307	$ 1,114	$ 1,550
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	$ (9,216)	$ 18,954	$ (2,158)	$ (272)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	43,829	34,032	-	-
Loss on disposal of fixed assets	-	35	-	-
Provision for doubtful accounts	49,584	42,345	-	-
Amortization of goodwill	672	672	-	-
Pension funding	(28,875)	(22,300)	-	-
Postemployment medical benefits (OPEB) funding	(6,400)	(5,995)	-	-
Net change in deferred outflows and inflows	22,748	9,628	-	-
Donations	(3,025)	(4,119)	3,035	4,132
Changes in assets and liabilities				
Accounts receivables	(59,842)	(43,511)	1,135	(1,536)
Supplies, prepaid expenses, and other current assets	4,873	(2,564)	(42)	-
Other assets	(2,365)	(2,009)	-	-
Due to foundation	(484)	(947)	-	-
Due from/to third party payors	(2,628)	(2,906)	-	-
Accounts payable and accrued expenses	328	2,931	-	-
Payroll, vacation, and health accrued liabilities	2,072	2,874	-	-
Other liabilities	(4,107)	12,428	(26)	-
Net cash provided by (used in) operating activities	$ 7,164	$ 39,548	$ 1,944	$ 2,324
Noncash transactions				
Capitalized interest	$ 7,123	$ 18,308	$ -	$ -
Accounts payable and accrued expenses for property and equipment purchases	4,351	25,654	-	-
Capitalized Leases	181	126	-	-
Contributed services	-	-	638	572
Contributed investments	-	-	48	87

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

1. Organization and Summary of Significant Accounting Policies

Organization

District

Washington Township Health Care District (the District) is a political subdivision of the State of California organized under the Local Health Care District Law, as set forth in the Health and Safety Code of the State of California, and is considered a Local Government Agency (Local Agency). It is exempt from federal and state income taxes. The District's mission is to provide broad healthcare services to its residents. The District's boundaries encompass an area of approximately 124 square miles in southern Alameda County. The District operates Washington Hospital (the Hospital), a 341-bed licensed acute care hospital located in Fremont, California. Included within the District boundaries are the cities of Fremont, Newark and Union City, the southern portions of the city of Hayward and the unincorporated area known as Sunol.

The District is the sole corporate member of Washington Township Hospital Development Corporation (DEVCO). DEVCO was formed in 1984 to train medical personnel, develop medical treatment programs, perform medical research and development, and render medical services to the general public. The DEVCO Board is appointed by the District's Board. DEVCO contractually operates a radiation oncology center and also operates an outpatient rehabilitation center and an urgent care clinic. On July 1, 2010, DEVCO purchased a controlling interest in the Washington Outpatient Surgery Center, LLC (WOSC) and has blended its financial statements since this date. DEVCO is considered a component unit of the District, and is blended in the District's financial statements based on the extent of District management's involvement in, and oversight of, DEVCO's operations and financial activity.

DEVCO is the sole corporate member of Washington Township Medical Foundation (WTMF). WTMF was formed on November 1, 2010 to operate a multi-specialty medical clinic under the applicable provisions of the California Health and Safety Code. WTMF is considered a component unit of the District, and is blended in the District's financial statements based on the extent of District and DEVCO management's involvement and oversight of WTMF's operations and financial activity.

The accompanying financial statements include the accounts and transactions of the Hospital, DEVCO and WTMF. All significant inter-company accounts and transactions have been eliminated in the financial statements.

Foundation

Washington Hospital Healthcare Foundation (the Foundation), founded in 1982, is a California non-profit corporation exempt from federal and state income tax. The Foundation was established to raise funds for the operation, maintenance, and modernization of the facilities of the District, its related corporations, and sponsored programs which benefit the District. Accordingly, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. Complete financial statements for the Foundation can be obtained from the Foundation at 2000 Mowry Avenue, Fremont, CA 94538.

Accounting Standards

District

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

Foundation

As a private non-profit organization, the Foundation reports under the Financial Accounting Standards Board (FASB) standards, including generally accepted accounting principles for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Other than minor nomenclature changes, no modifications have been made to the Foundation's financial information in the District's financial reporting entity for these differences.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The District's most significant estimates relate to patient accounts receivable allowances, amounts due to third-party payors, self-insurance liabilities and employee benefit costs. The Foundation's most significant estimates relate to allowances for uncollectible pledges and net present value of contributions receivable. Actual results may differ from those estimates.

Proprietary Fund Accounting

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and financial statements are prepared using the economic resources measurement focus.

Cash and Cash Equivalents

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

Due to the District's status as a Local Agency, amounts in the District's deposit accounts are considered to be public funds, which, by State statute, are required to be collateralized, with pledged securities, by the depository bank. The value of the pledged securities, in addition to the deposit insurance provided by the Federal Deposit Insurance Corporation, equals or exceeds the District's carrying value. Collateral is held by the depository bank's trust department in the name of the District.

Contributed Services

Certain general and administrative support to the Foundation is provided by the District. The value of the services is recorded as a contribution in the Foundation and an equivalent amount is included in operating expense of the District.

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 with donor restrictions and then reclassified from with donor restrictions to without donor restrictions. Contributions are derived primarily from donors in Northern California.

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

Donations Granted
Donations granted by the Foundation are recognized as expenses in the period made and as decreases of assets or increases of liabilities, depending on the form of benefits given.

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

Long-Term Investment and Restricted Funds
Long-term investments and restricted funds are invested in corporate debt securities, United States Treasury bonds and government agency debt issues. These investments are measured at fair value, which is determined based upon quoted market prices. These investments are exposed to various risks, such as interest rate, market and credit risks. Investments set aside for future capital improvements, or for funding insurance are considered to be Board-designated funds. These and other investments, whose use has been limited by financial arrangements, are classified as long- or short-term investment funds. Investments whose use by the District has been limited by Foundation donors to a specific time period or purpose are classified as restricted funds.

Capital Assets
Capital assets are recorded at cost. District assets with an original cost of $500 or more are considered capital assets. Depreciation is provided over the useful life of each class of depreciable assets and is computed using the straight-line method. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred.

Depreciable lives by property classification are as follows:

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

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

Deferred Inflows and Outflows of Resources
In addition to assets, liabilities and net position, the statement of financial position includes separate sections for deferred outflows of resources and deferred inflows of resources. A deferred outflow represents a consumption or use of net position, applicable to a future period that will not be recognized as an outflow (expense) until that future period. Similarly, a deferred inflow represents an acquisition of net position, applicable to a future period that will not be recognized as an inflow (revenue) until that future period. The District has deferred outflows of resources related to goodwill (described further under Business Combinations and Goodwill below), and both deferred inflows and deferred outflows of resources related to pension and other postemployment medical benefits (OPEB) both of which are described further under Note 12, Employee Benefit Plans.

Business Combinations and Goodwill
The District adopted GASB 69, *Government Combinations and Disposals of Government Operations* in fiscal year 2015. In connection with this adoption, the goodwill associated with the July 2010 purchase of a controlling interest in the WOSC was assigned a life of fifteen years. *Other operating expenses* for fiscal years 2019 and 2018 each include annual expense of $0.7 million for amortization of this goodwill.

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

There were no new business combinations in fiscal year 2019 or fiscal year 2018.

Risk Management
The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident claims; and medical malpractice. The District utilizes both commercial insurance and self-insurance for claims arising from such matters. The District is self-insured for workers' compensation claims, health, vision and dental claims, and is self-insured for amounts in excess of specified retention amounts for hospital professional and general liability (including directors' and officers') claims.

Self-Insurance Plans
The District is self-insured for workers' compensation benefits for employees. An actuarial estimate of future claims payments are accrued as a long-term liability. This estimate is based on the expected, undiscounted payments. Assets have been set aside for future payments of workers' compensation benefits, related expense, and the cost of administering the plan. These assets are classified as long-term investment funds in the accompanying financial statements.

The District provides eligible employees with health, vision and dental benefits through self-insured programs administered by Blue Shield, Vision Service Plan and Delta Dental, respectively. The accrued liabilities for claims arising from these programs are estimated based upon annual actuarial reviews and are recorded at the expected, undiscounted amounts.

The District is a member of and participates in a group professional and general liability (including directors and officers coverage) group insurance program through BETA Healthcare Group (BETA). BETA is a joint powers authority whose members are district hospitals and county facilities in California. Amounts paid to BETA by each member represent actuarially determined assessments of claims payable, and estimated incurred, but not reported, claims that are adjusted periodically based on the claims experience for each member hospital. Claims in excess of specified retention amounts are the responsibility of individual program participants.

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

Net Position

District

Net position is composed of the following categories:

Net Investment in Capital Assets

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

Restricted - 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.

Restricted for Minority Interest - Nonexpendable

Net position of a legally separate organization attributable to other participants. In July 2010, the District acquired the WOSC and concurrently sold a minority interest in the entity to area physicians. No gain on sale was recognized upon the sale of the minority interest. During 2019, the WOSC earned operating income of approximately $1.3 million. The District distributed a portion of the minority interest’s share of 2018 earnings in fiscal year 2019.

Unrestricted

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

When an expense is incurred where both restricted and unrestricted net positions are available for use, the District applies restricted net position first.

Foundation

The net assets of the Foundation and changes therein are classified and reported as follows:

With Donor Restrictions

Net assets with donor restrictions 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 presentation, these amounts are labeled as “Restricted-expendable” in the accompanying financial statements.

Without Donor Restrictions

Net assets without donor restrictions represent those resources of the Foundation that are not subject to donor-imposed stipulations. The only limits on net assets without donor restrictions 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. For presentation, these amounts are labeled as “Unrestricted” in the accompanying financial statements.

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

The District invests its cash and cash equivalents in highly rated financial instruments including insured deposits and the Local Agency Investment Fund (LAIF). All of the District’s investments, including assets held by trustees, are collateralized and/or are held by the District, or its agent, in the District’s name. Other than U.S. Treasury obligations, LAIF funds, and money market mutual funds, there is no significant concentration in one investment or group of similar investments.

The District’s concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the District’s patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Reimbursements from the Medicare program accounted for approximately 26 percent and 25 percent of the District’s net patient service revenues for the fiscal years ended June 30, 2019 and 2018, respectively. Medicare (17 percent) is the only payor representing more than ten percent of the District’s net patient accounts receivable as of June 30, 2019. The District maintains an allowance for doubtful accounts based on the expected collectability of patient accounts receivable.

Foundation
Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash equivalents and pledged contributions receivable.

The Foundation invests its cash and cash equivalents in highly rated financial instruments including insured deposits. The District holds a portion of the Foundation assets in the District’s LAIF account.

The Foundation maintains an allowance for uncollectible pledges based on the expected collectability of pledges. The Foundation had 163 donor pledges, with the largest individual pledge representing approximately 32.7 percent of the total pledge receivable balance, as of June 30, 2019. The Foundation had 209 donor pledges, with the largest individual pledge representing approximately 23.3 percent of the total pledge receivable balance, as of June 30, 2018.

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

Net Patient Service Revenues
Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Reimbursement from third-party payors under various methodologies is based on the level of care provided. Retroactive adjustments are

accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Retroactive adjustments, related to prior years, including adjustments to prior year estimates, increased net patient service revenues by approximately $10.9 million in fiscal year 2019 and approximately $12.7 million in fiscal year 2018.

Laws and regulations governing the Medicare and Medi-Cal programs are complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change.

Charity Care
The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenues. The District subsidizes the cost of treating patients who are on governmental assistance, where reimbursement is below cost.

Other Revenues
Other revenues include revenues from cafeteria, laundry, dietary and certain DEVCO operations. Other revenues also include funding under the State of California's Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program. Amounts recorded for the PRIME program were $3.8 million and $5.4 million in fiscal years 2019 and 2018, respectively.

Interest Income and Expense
Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and are depreciated over the estimated useful life of the asset.

Impairment of Long-Lived Assets
The District is required to evaluate prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. Based on management's evaluation, there were no impairment losses in fiscal years 2019 and 2018.

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

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

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

Special Item
Concurrent with the opening of the Hyman Pavilion, patients were moved into the building and building operations commenced on November 13, 2018. The Pavilion move was anticipated and

within the control of management. Although the nature of the expenses (wages and training) was not unusual for the District, the expenses were significant and infrequent and, accordingly, qualified for treatment as a special item, reported separately before extraordinary items.

New Accounting Pronouncements
District – Adopted
In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations,* effective for financial statements for periods beginning after June 15, 2018, (fiscal year 2019 for the District) with earlier adoption encouraged. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Under GASB 83, an entity that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a related liability. The District's adoption of this standard in fiscal year 2019 did not impact the amounts presented in the financial statements.

In April 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, effective for financial statements for periods beginning after June 15, 2018 (fiscal year 2019 for the District), with earlier adoption encouraged. The primary objective of this Statement is to expand and improve financial statement footnote disclosures related to debt, including direct borrowing and direct placements. Adoption of this guidance by the District was limited to additional disclosure regarding the consequences related to breach of covenants related to existing District debt.

District – Not Applicable
In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities,* effective for financial statements for periods beginning after December 15, 2018 (fiscal year 2020 for the District), with earlier adoption encouraged. The objective of this Statement is to improve guidance regarding the identification, accounting and financial reporting of fiduciary activities by state and local governments. This guidance is not applicable for the District.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations,* effective for financial statements for periods beginning after December 15, 2020 (fiscal year 2021 for the District), with earlier application encouraged. The objectives of this statement are to standardize disclosures related to conduit debt obligations. This guidance is not applicable for the District.

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

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

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

Foundation – Adopted

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, effective for periods beginning after December 15, 2017 (fiscal year 2019 for the Foundation). ASU 2016-14 revises the not-for-profit financial reporting model, streamlining and clarifying net asset reporting, providing flexibility regarding the definitions of reported operating subtotals, and imposing new reporting requirements related to expenses. The primary impact of adoption of this standard by the Foundation in fiscal year 2019 was nomenclature changes related to net asset, revenue and expense categories and additional disclosure requirements related to functional expenses and liquidity.

Foundation – Pending Adoption

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, effective for not-for-profit entities for periods beginning after December 15, 2018 (fiscal year 2020 for the Foundation). ASU 2016-01 requires separate presentation of financial assets and financial liabilities, by measurement category and form of financial asset, on the balance sheet or in the accompanying notes to the financial statements. Management is currently evaluating the effect of this standard on the financial statements.

2. Patient Revenues

Patient revenues consist of the following:

(in thousands)	**2019**	**2018**
Gross patient charges		
Routine inpatient services	$ 416,792	$ 390,147
Ancillary inpatient services	1,078,848	1,105,208
Outpatient services	748,284	609,927
	2,243,924	2,105,282
Less: Charity care	(2,658)	(4,135)
Gross patient service revenues	2,241,266	2,101,147
Deductions from gross patient service revenues		
Contractual allowances for statutory and negotiated rates	1,671,388	1,553,273
Provision for doubtful accounts	49,584	42,345
	1,720,972	1,595,618
Net patient service revenues	$ 520,294	$ 505,529

The District has agreements with third-party payors that provide for payments to the District at amounts that differ from established rates. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District also receives Medicare Disproportionate Share (DSH) reimbursements for services provided to a disproportionate percentage of low-income patients. The Medicare program pays hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the District is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory are paid based upon prospectively determined fee schedules. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been finalized for all fiscal years through June 30, 2016.

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

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

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances, which represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Receivables for patient care are also reduced for allowances for uncollectible accounts.

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

At the current time there is uncertainty about reimbursements from government programs. The Centers for Medicare and Medicaid Services have proposed reductions in rates, which would result in a decrease in Medicare reimbursements. The State budget contains proposed health care budget cuts that may affect reimbursements for non-contracted Medi-Cal services. The ultimate outcome of these proposals and other market changes cannot presently be determined.

State of California Assembly Bill (“AB”) 1383 of 2009, as amended by AB 1653 (Statutes of 2010) established a series of Medicaid supplemental payments funded through a “Quality Assurance Fee (QAF)” and a “Hospital Fee Program (Program)”, which are imposed on certain California hospitals. The original effective date of the HFP was April 1, 2009 through December 31, 2010 and is predicated, in part, on the enhanced Federal Medicaid Assistance Percentage (“FMAP”) contained in the American Reinvestment and Recovery Act (“ARRA”). The Program was made permanent by the passage of Proposition 52 in November 2016. The current Program relates to the period from January 1, 2017 through June 30, 2019. The Program makes supplemental payments to hospitals for various health care services and supports the state’s effort to maintain health care coverage for children. The District, designated as a public hospital, is exempt from paying the QAF; however, the District receives supplemental payments under the Program. For fiscal years 2019 and 2018, the District recognized $4.7 million and $3.5 million, respectively. Program revenues have been reported as net patient service revenues.

Non-Designated Public Hospitals (NDPHs), including the District, were authorized, in 2011’s AB 113, to use intergovernmental transfers (IGTs) to obtain federal supplemental funds for Medi-Cal inpatient fee-for-service. The IGTs are used to bring NDPHs, in the aggregate, up to their federal upper payment limit (UPL). The UPL is the federal maximum available under the Medicaid program, as calculated based on the actual costs of providing care. For fiscal years 2019 and 2018, the District recognized amounts under the IGT Program of $1.4 million and $2.5 million, respectively, which have been reported as net patient service revenues.

State of California Assembly Bill 915, *Public Hospital Outpatient Services Supplemental Reimbursement Program*, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's Certified Public Expenditures ("CPE"), which are matched with federal Medicaid funds. For fiscal years 2019 and 2018, the District recorded net patient service revenues of $1.1 million and $2.0 million, respectively, related to these payments.

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

(in thousands)	2019	2018
Medicare and Medicare HMO	$ 1,153,012	$ 1,069,724
Medi-Cal and Medi-Cal HMO	434,552	410,289
Commercial PPO, HMO and others	602,200	576,318
Private pay	54,160	48,951
Total gross patient revenues	$ 2,243,924	$ 2,105,282

3. Charity Care

The District maintains records to identify and monitor the level of direct charity care it provides. For fiscal year 2019 and 2018, net patient service revenues exclude charges foregone for charity care services and supplies of approximately $2.7 million and $4.1 million, respectively.

4. Contributions Receivable

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

(in thousands)	2019	2018
Contributions receivable before unamortized discount and allowance for uncollectibles	2,141	3,426
Less:		
Allowance for uncollectibles	(64)	(68)
Unamortized net present value discount	(250)	(396)
Net contributions receivable	$ 1,827	$ 2,962
Amounts due in		
Less than 1 year	$ 94	$ 90
1 to 3 years	1,733	2,872
Net contributions receivable	$ 1,827	$ 2,962

The value of net contributions receivable represents the Foundation's expected future cash flows from each pledge. For fiscal years 2019 and 2018, the Foundation used discount rates of 5.75 percent and 5.0 percent, respectively. The rate used for each year is based on management's estimate of the risk-free rate, adjusted for the risk of donor default.

5. Restricted Net Position and Net Assets

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

Foundation
The Foundation's net assets with donor restrictions are available for the following programs:

(in thousands)	**2019**	**2018**
Hyman Pavilion	$ 2,982	$ 5,442
Health-related services	824	769
Emergency room and critical care	426	308
Surgical services	341	253
Trauma rooms	264	264
Community Mammography	224	209
Pathways hospice	220	230
Education and professional recognition	196	211
Special care nursery	102	153
Other activities	52	9
Total net assets with donor restrictions	$ 5,631	$ 7,848

6. Related-Party Transactions

The District held $2.4 million and $2.9 million as of June 30, 2019 and 2018, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated $3.0 million and $4.1 million to the District for fiscal years 2019 and 2018, respectively. The District also provides additional support for the Foundation by providing free space, utilities and other operating expenses to the Foundation.

7. Fair Value

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

These levels are as follows:

Level 1 Values are based on quoted prices (unadjusted) available in active markets for identical assets or liabilities as of the measurement date. Level 1 investments include equity securities and other publicly traded securities. The District has no Level 1 assets or liabilities.

Level 2 Values are based on quoted prices in non-active markets, dealer quotations, or alternative pricing sources for similar assets or liabilities, for which all significant inputs are observable, either directly or indirectly. Level 2 investments included fixed- or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.

Level 3 Values are based on inputs that are generally unobservable for the asset or liability and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value for Level 3 investments are based upon the best information available and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements. The District has no Level 3 assets or liabilities.

Not Leveled Cash and cash equivalents include cash on hand, deposits in banks, certificates of deposit and money market funds. Due to their short-term nature, the carrying amounts of these assets are considered to approximate their fair value.

The fair value of the District's and Foundation's investment assets, measured on a recurring basis at June 30, 2019, is reflected in the following table:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Cash and Cash Equivalents (Not Leveled)	Balance at June 30, 2019
District					
Short-term investments					
Money market and mutual funds	$ -	$ -	$ -	$ 40,025	$ 40,025
Long-term investment and restricted funds					
U.S. Treasuries	-	56,564	-	-	56,564
U.S. Agencies	-	19,937	-	-	19,937
Corporate and municipal bonds	-	63,998	-	-	63,998
Local Agency Investment Fund (LAIF)	-	32,791	-	-	32,791
Money market and mutual funds	-	-	-	1,839	1,839
Total Investments - District	$ -	$ 173,290	$ -	$ 41,864	$ 215,154
Foundation					
Short-term investments					
Money market funds and certificates of deposit	$ -	$ -	$ -	$ 307	$ 307
Short-term investments held by District on behalf of Foundation Local Agency Investment Fund (LAIF)	-	2,376	-	-	2,376
Long-term investment and restricted funds:					
Certificates of deposit	-	-	-	110	110
Total Investments - Foundation	$ -	$ 2,376	$ -	$ 417	$ 2,793

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

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

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

Fixed income funds consist of government securities and corporate bonds. Where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, as well as discounted cash flow models and other pricing modes. These inputs to fair value are included in industry-standard valuation techniques such as the income or market approach.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instrument therefore changes in assumptions could significantly affect these estimates.

Since the fair value has been estimated as of June 30, 2019 and as of June 30, 2018, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be different.

8. Long-Term Investment and Restricted Funds

District

As of June 30, 2019 and 2018, investment and restricted funds, at fair value, have been set aside as follows:

(in thousands)	2019	2018
Long-term Investment and Restricted Funds		
Board-designated for capital and debt	$ 156,039	$ 172,782
Workers' compensation fund	8,967	8,593
Funds held by trustee under bond indenture	50,107	92,177
Restricted funds	41	2,802
Total funds	215,154	276,354
Short-term investments – required for current liabilities	(33,586)	(53,768)
Total long-term investment and restricted funds	$ 181,568	$ 222,586

Foundation

Investments as of June 30, 2019 and 2018, at fair value, are summarized below:

(in thousands)	2019	2018
Money market and certificates of deposit	$ 417	$ 535
LAIF held by District on behalf of Foundation	2,376	2,860
Total Investments	$ 2,793	$ 3,395

The District's investment policy permits the following investments:

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

* no maximum for investments of bond proceeds

As of June 30, 2019 the District had the following investments with maturities as follows:

(in thousands)	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Investment type					
U.S. Treasuries	$ 56,564	$ 4,594	$ 47,862	$ 4,108	$ -
U.S. Government agencies	19,937	313	11,190	2,087	6,347
Corporate bonds	63,998	1,616	62,170	212	-
LAIF (State Pool Demand Deposits)	32,791	32,791	-	-	-
Money market and mutual funds	41,864	41,864	-	-	-
Total investments	$ 215,154	$ 81,178	$ 121,222	$ 6,407	$ 6,347

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

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

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

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

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

The District's investments at June 30, 2019 are rated as follows:

(in thousands)	Fair Value	Ratings
Investment type		
U.S. Treasuries	$ 56,564	Not rated
U.S. Government agencies	19,937	Not rated
Corporate bonds	63,998	See below
Local agency investment fund	32,791	Not rated
Money market and mutual funds	41,864	Not rated
Total Investments	$ 215,154	

(in thousands)	Amount
Corporate bonds rating	
AAA	$ 5,272
AA+	2,831
AA	6,568
AA-	8,894
A+	6,729
A	22,451
A-	11,253
Total corporate bonds	$ 63,998

9. Capital Assets

The District's capital assets activity for fiscal year 2019 consisted of the following:

(in thousands)	Beginning Balance June 30, 2018	Increase	Decrease	Ending Balance June 30, 2019
Capital assets, not being depreciated				
Land	$ 27,616	$ -	$ -	$ 27,616
Construction in progress	392,243	41,811	(423,612)	10,442
Total capital assets not being depreciated	419,859	41,811	(423,612)	38,058
Capital assets being depreciated				
Land improvements	12,924	2,806	-	15,730
Buildings	391,049	393,883	-	784,932
Fixed and moveable equipment	343,090	32,792	(524)	375,358
Total capital assets being depreciated	747,063	429,481	(524)	1,176,020
Less: Accumulated depreciation				
Land improvements	(12,044)	(1,511)	-	(13,555)
Buildings	(179,652)	(25,432)	-	(205,084)
Fixed and movable equipment	(236,729)	(20,390)	524	(256,595)
Total accumulated depreciation	(428,425)	(47,333)	524	(475,234)
Total capital assets being depreciated, net	318,638	382,148	-	700,786
Total capital assets, net	$ 738,497	$ 423,959	$ (423,612)	$ 738,844

At June 30, 2019, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately $4.6 million.

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

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

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

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

(in thousands)	2019	2018
Change in accumulated depreciation		
Operating depreciation expense	$ 43,829	$ 34,032
Non-operating depreciation expense	3,504	4,041
Disposal of fixed assets	(524)	(27,516)
Total increase in accumulated depreciation	$ 46,809	$ 10,557

10. Credit Facilities

During the fiscal years 2019 and 2018, WOSC had a short-term $1.0 million revolving line of credit available. The line of credit was renewed, through September 2021, upon expiration in September 2019. There have been no draws under the line of credit since its inception.

In fiscal year 2015, the District entered into an Irrevocable Standby Letter of Credit (Standby LC) in the amount of $2.1 million in connection with the construction of the new parking garage (completed in August 2016) and the Hyman Pavilion (completed in November 2018). No draws have been made under the Standby LC which expires March 1, 2020.

11. Long-Term Debt

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

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

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

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

In October 2015, the District issued revenue refunding bonds (2015 Series A) to refinance the outstanding amounts due on revenue bonds originally issued in 1999. The refunded bonds were originally issued for the purpose of providing funds to pay costs associated with the acquisition, construction and renovation the Hospital’s facilities. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital’s revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

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

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

In April 2017, the District issued new money revenue bonds (2017 Series A) to provide funds for the continued construction and equipping of the Hyman Pavilion and other capital expenditures. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

In June 2017, the District issued revenue refunding bonds (2017 Series B) to refinance the outstanding amounts due on previously issued 2007 revenue bonds. The refunded bonds were originally issued to provide funds for the construction of a new building for the Center for Joint Replacement and several smaller capital projects. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

The District is also required to meet certain covenants, the most restrictive of which is related to debt service coverage. The District has agreed that the Hospital will maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. The District was in compliance with these covenants as of June 30, 2019 and 2018, maintaining debt service coverage ratios of 3.5 to 1.0 and 4.3 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

If, for any fiscal year, the long-term debt service coverage ratio falls between 1.0 and 1.1 to 1.0, the District is required to employ an independent consultant to make recommendations which will result in the long-term debt service coverage increasing to1.1 to 1.0. As long as the District complies with the recommendations and the long-term debt service coverage is no less than 1.0 to 1.0, no further actions are required of the District.

In the event that the long-term debt service coverage ratio falls below 1.0 to 1.0, the Trustee, or a majority of the bondholders, shall be entitled to declare the bonds immediately due and payable.

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

In fiscal years 2015 through 2019, WOSC entered into multi-year lease agreements for surgical equipment. Amounts related to these obligations are included in current maturities of long-term debt and long-term debt, as appropriate.

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

A summary of the District's revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2019 is as follows:

(in thousands)	Beginning Balance, June 30, 2018	Additions	Amortization /Other	Repayments	Ending Balance, June 30, 2019	Due Within One Year
Bonds payable						
2017B Revenue Refunding Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	$ 66,690	$ -	$ -	$ (1,090)	$ 65,600	$ 1,170
Plus: Issuance premiums	3,424	-	(433)	-	2,991	-
Total 2017B Revenue Refunding Bonds Payable	70,114	-	(433)	(1,090)	68,591	1,170
2017A Revenue Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	37,655	-	-	(635)	37,020	655
Plus: Issuance premiums	1,251	-	(164)	-	1,087	-
Tota Total 2017A Revenue Bonds Payable	38,906	-	(164)	(635)	38,107	655
2016 General Obligation Refunding Bonds, principal and interest (at 2.00% to 5.00%) payable semiannually	29,640	-	-	(1,105)	28,535	1,135
Plus: Issuance premiums	2,954	-	(450)	-	2,504	-
Total 2016 Gen'l Obligation Refunding Bonds Payabl	32,594	-	(450)	(1,105)	31,039	1,135
2015A Revenue Refunding Bonds, principal and interest (at 3.25% to 5.00%) payable semiannually	27,120	-	-	(1,740)	25,380	1,815
Plus: Issuance premiums	1,131	-	(292)	-	839	-
Total 2015A Revenue Refunding Bonds Payable	28,251	-	(292)	(1,740)	26,219	1,815
2015B General Obligation Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually	145,500	-	-	-	145,500	-
Plus: Issuance premiums	1,504	-	(50)	-	1,454	-
Total 2015B General Obligation Bonds Payable	147,004	-	(50)	-	146,954	-
2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually	105,000	-	-	-	105,000	720
Plus: Issuance premiums	2,338	-	(193)	-	2,145	-
Total 2013B General Obligation Bonds Payable	107,338	-	(193)	-	107,145	720
2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually	40,500	-	-	-	40,500	280
Plus: Issuance premiums	664	-	(44)	-	620	-
Total 2013A General Obligation Bonds Payable	41,164	-	(44)	-	41,120	280
2010 Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually	53,250	-	-	(1,465)	51,785	1,540
Less: Issuance discounts	(840)	-	51	-	(789)	-
Total 2010 Revenue Bonds Payable	52,410	-	51	(1,465)	50,996	1,540
2009 Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually	48,435	-	-	(1,135)	47,300	1,190
Less: Issuance discounts	(582)	-	49	-	(533)	-
Total 2009 Revenue Bonds Payable	47,853	-	49	(1,135)	46,767	1,190
2009 General Obligation Bonds, principal and interest (at 4.50% to 5.75%) payable semiannually	11,785	-	-	(30)	11,755	45
Less: Issuance discounts	(11)	-	1	-	(10)	-
Total 2009 General Obligation Bonds Payable	11,774	-	1	(30)	11,745	45
WOSC 2017 Loan, principal and interest (at 4.50%) payable monthly	725	-	-	(243)	482	203
Total WOSC 2017 Loan Payable	725	-	-	(243)	482	203
Capital lease obligations						
WOSC Capital Leases (2015 - 2019), principal and interest (at 3.49% to 5.00%) payable monthly	389	181	-	(142)	428	139
Total WOSC capital lease obligations	389	181	-	(142)	428	139
Total long-term debt payable	$ 578,522	$ 181	$ (1,525)	$ (7,585)	$ 569,593	$ 8,892

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

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

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

(in thousands)		Original Issue Amount	Maturity Date	Effective Interest Rate 2019	Effective Interest Rate 2018
Bond issue					
2017B Revenue Refunding Bonds	$	66,690	7/1/2037	3.57%	3.56%
2017A Revenue Bonds		37,655	7/1/2047	3.85%	3.80%
2016 Gen'l Obligation Refunding Bonds		30,725	8/1/2036	2.11%	2.03%
2015A Revenue Bonds		30,290	7/1/2029	3.16%	3.05%
2015B General Obligation Bonds		145,500	8/1/2045	3.93%	3.93%
2013B General Obligation Bonds		105,000	8/1/2043	4.88%	4.87%
2013A General Obligation Bonds		40,500	8/1/2043	4.88%	4.87%
2010 Revenue Bonds		60,725	7/1/2038	5.50%	5.46%
2009 Revenue Bonds		55,000	7/1/2039	6.28%	6.26%
2009 General Obligation Bonds		25,000	8/1/2039	5.70%	5.70%

The long-term debt payment requirements as of June 30, 2019, excluding unamortized discounts and premiums on bonds payable, are as follows:

(in thousands)	Total Long-Term Debt Principal	Total Long-Term Debt Interest
June 30,		
2020	8,892	26,208
2021	9,775	25,765
2022	9,980	25,286
2023	10,248	24,796
2024	10,630	24,290
2025 - 2029	54,715	113,746
2030 - 2034	90,045	97,627
2035 - 2039	138,525	70,165
2040 - 2044	143,740	35,278
2045 - 2048	82,735	3,806
Total long-term debt, excl. unamortized discounts and premiums	$ 559,285	$ 446,967

Components of interest expense include the following:

(in thousands)	2019	2018
Total interest cost	$ 24,909	$ 25,292
Capitalized interest expense	(7,123)	(18,308)
Net interest expense	17,786	6,984
Capitalized investment income	$ 1,291	$ 1,318

12. Employee Benefit Plans

Defined Benefit Retirement Plan
The District maintains a defined benefit retirement plan, the Washington Township Health Care District Retirement Plan (the Plan), that covers all employees who meet certain eligibility requirements. The Plan, as approved by the Board of Directors of the District, is a single employer plan funded solely by the District. Benefits under the Plan are calculated based on the participant's length of service, age at retirement, and average compensation as defined by the Plan. Employees are fully vested in the Plan after 5 years of service and are eligible to receive an unreduced benefit once they reach age 65. An employee who attains age 62 and has completed 20 years of service, or an employee who attains age 60 with 30 years of service is also eligible for an unreduced benefit. The Plan also provides disability and death benefits. The Plan does not issue a stand-alone financial report.

Based on guidance under GASB 68, and the District's intention to fully fund the Plan by 2024, the benefit discount rate is equal to the expected long-term (30 year) return on assets, which assumes that Plan assets will be invested in a diversified portfolio of stocks and bonds. For further information regarding the development of the expected long-term return on assets, see the Required Supplementary Schedules included as part of these financial statements.

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. In addition to the District's contributions, under the terms of the California Public Employees' Pension Reform Act (PEPRA), which became effective in January 1, 2013, new employees are required to contribute to the normal cost of their pension benefits. The projected amounts of these employee contributions have been considered in determining the actuarially determined contribution amounts.

Participant data for the Plan, as of the measurement date (January 1) for the indicated fiscal years, is shown in the table below:

	2019	2018
Active	1,448	1,431
Vested terminated	725	720
Retirees and beneficiaries	702	663
Total participants	2,875	2,814

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

(in thousands)	2019	2018
Pension cost		
Service cost	$ 8,190	$ 6,500
Employee contributions	(1,235)	(980)
Interest	26,693	24,436
Expected return on plan assets	(24,491)	(20,727)
Administrative expenses	224	252
Recognition of deferred amounts	13,135	6,382
Total pension cost	$ 22,516	$ 15,863

Continued

(in thousands)	**2019**	**2018**
Deferred outflows of resources - pension		
Remaining balance at beginning of year		
Established July 1, 2013		
Difference between expected and actual experience	$ -	$ 670
Change in assumptions	-	55
Established July 1, 2014		
Difference between expected and actual experience	62	191
Difference between expected and actual earnings on plan investments	1,085	2,170
Change in assumptions	1,570	4,808
Established July 1, 2015		
Difference between expected and actual earnings on plan investments	6,307	9,461
Established July 1, 2016		
Difference between expected and actual earnings on plan investments	7,187	9,582
Difference between expected and actual experience	4,346	6,295
Established July 1, 2017		
Difference between expected and actual experience	11,417	15,019
Established July 1, 2018		
Difference between expected and actual earnings on plan investments	43,426	-
Deferred outflows of resources - pension at the beginning of the year	75,400	48,251
Amount recognized in current year pension cost		
Established July 1, 2013		
Difference between expected and actual experience	-	670
Change in assumptions	-	55
Established July 1, 2014		
Difference between expected and actual experience	62	129
Difference between expected and actual earnings on plan investments	1,085	1,085
Change in assumptions	1,570	3,238
Established July 1, 2015		
Difference between expected and actual earnings on plan investments	3,154	3,154
Established July 1, 2016		
Difference between expected and actual earnings on plan investments	2,395	2,395
Difference between expected and actual experience	1,949	1,949
Established July 1, 2017		
Difference between expected and actual experience	3,601	3,602
Established July 1, 2018		
Difference between expected and actual earnings on plan investments	8,685	-
Deferred outflows of resources - pension amortized during the year	22,501	16,277
Deferred outflows of resources - pension subtotal	52,899	31,974
Amounts of deferred outflows to be recognized in pension assets for future years		
Employer contributions made after measurement date	5,775	-
Deferred outflows of resources - pension at end of year	$ 58,674	$ 31,974

Continued *(in thousands)*	2019	2018
Deferred inflows of resources - pension		
Remaining balance at beginning of year		
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	$ -	$ (2,448)
Established July 1, 2015		
Difference between expected and actual experience	(2,964)	(6,098)
Established July 1, 2017		
Difference between expected and actual earnings on plan investments	(17,252)	(21,565)
Established July 1, 2018		
Difference between expected and actual experience	(8,586)	-
Deferred inflows of resources - pension at the beginning of the year	(28,802)	(30,111)
Amount recognized in current year pension cost		
Established July 1, 2013		
Difference between expected and actual earnings on plan investments	-	(2,448)
Established July 1, 2015		
Difference between expected and actual experience	(2,964)	(3,134)
Established July 1, 2017		
Difference between expected and actual earnings on plan investments	(4,313)	(4,313)
Established July 1, 2018		
Difference between expected and actual experience	(2,089)	-
Deferred inflows of resources - pension amortized during the year	(9,366)	(9,895)
Deferred inflows of resources - pension at end of year	$ (19,436)	$ (20,216)

Amounts reported as deferred outflows and inflows of resources – pension will be recognized in pension expense as indicated in the following tables:

Amount of deferred outflows to be recognized in pension expense for future years	
2020	$ 19,785
2021	15,131
2022	9,298
2023	8,685
Thereafter	-
Total deferred outflows of resources - pension	$ 52,899

Amount of deferred inflows to be recognized in pension expense for future years	
2020	$ (6,402)
2021	(6,402)
2022	(6,402)
2023	(230)
Thereafter	-
Total deferred inflows of resources - pension	$ (19,436)

The following table summarizes changes in net pension liability from July 1, 2017 to June 30, 2019:

(in thousands)	2019	2018
Total pension liability		
Service cost	$ 8,190	$ 6,500
Interest	26,693	24,436
Difference between expected and actual experience	(8,586)	15,019
Benefit payments	(16,330)	(15,043)
Net change in total pension liability	9,967	30,912
Total pension liability (beginning of year)	365,118	334,206
Total pension liability (end of year)	375,085	365,118
Plan fiduciary net position		
Employer contributions	23,100	22,300
Employee contributions	1,235	980
Net investment income	(18,935)	42,293
Benefit payments	(16,330)	(15,043)
Administrative expense	(224)	(252)
Other	-	(1)
Net change in fiduciary net position	(11,154)	50,277
Fiduciary net position (beginning of year)	322,729	272,452
Fiduciary net position (end of year)	311,575	322,729
Net pension liability (end of year)	$ 63,510	$ 42,389
Fiduciary net position as percent of liability	83.1%	88.4%
Covered employee payroll	173,692	168,165
Net pension liability as percent of covered payroll	36.6%	25.2%

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2019 and June 30, 2018 (unless otherwise indicated, the same assumption was used for the valuations for both years):

Valuation date	January 1
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Economic assumptions (including 3% inflation)	
Projected salary increases	3.00%
Discount rate	7.50%
Demographic assumptions	
Mortality table for healthy participants	RP-2014 base table with two-dimensional projection scale BB projected generationally
Mortality table for disabled participants	RP-2014 Disabled retiree table
Sensitivity of net pension liability at January 1, 2019 to changes in the discount rate, with no other changes -	
1 percent decrease (6.5%)	$109,634,000
Current discount rate (7.5%)	63,510,000
1 percent increase (8.5%)	24,994,000
Sensitivity of net pension liability at January 1, 2018 to changes in the discount rate, with no other changes -	
1 percent decrease (6.5%)	$87,741,000
Current discount rate (7.5%)	42,389,000
1 percent increase (8.5%)	4,541,000

The fair value of the District's pension investments measured as of January 1, 2019, and used for the purpose of the June 30, 2019 valuation, is reflected in the following table:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Cash And Cash Equivalents (Not Leveled)	Balance At Valuation Date
Money market and mutual funds	$ 279,345	$ 30,067	$ -	$ -	$ 2,163	$ 311,575
Fixed income securities	-	-	-	-	-	-
Domestic equity fund	-	-	-	-	-	-
International equity fund	-	-	-	-	-	-
Private equity fund	-	-	-	-	-	-
Total pension assets	$ 279,345	$ 30,067	$ -	$ -	$ 2,163	$ 311,575

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

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Cash And Cash Equivalents (Not Leveled)	Balance At Valuation Date
Money market and mutual funds	$ 289,496	$ 28,330	$ -	$ -	$ 4,903	$ 322,729
Fixed income securities	-	-	-	-	-	-
Domestic equity fund	-	-	-	-	-	-
International equity fund	-	-	-	-	-	-
Private equity fund	-	-	-	-	-	-
Total pension assets	$ 289,496	$ 28,330	$ -	$ -	$ 4,903	$ 322,729

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

The District also has a Deferred Compensation Plan available to employees. Generally, any employee is eligible to voluntarily enter into an agreement with the District to defer current wages at amounts limited by federal law. Effective January 1, 2010, under the terms of the Washington Township Health Care District Employer Matching Contributions Plan (the Matching Plan), the District matches participant contributions, for employees with a minimum of 1,000 hours in a benefitted status, to a maximum of 1.5 percent of gross earnings. Under the deferred compensation plan and the Matching Plan agreements, the District purchases annuity contracts for various investments. All investment earnings, including market value appreciation and depreciation, are set aside in trusts for the benefit of the participants.

Matching contributions made by the District in fiscal years 2019 and 2018 were as follows:

(in thousands) **Contribution Year**	**Amount**	**Employee Deductions Being Matched**
2019	$ 1,998	Calendar year 2018
2018	$ 1,962	Calendar year 2017

Defined Benefit Postemployment Medical Plan

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

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

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

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

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

In June 2018, the District established a trust that is consistent with the requirements of GASB 75. The District made an initial contribution to the trust of $4.5 million in June 2018.

Because the trust did not yet exist at the valuation date of January 1, 2018, the total OPEB liability as of June 30, 2018 was discounted based on the Bond Buyer 20 Index (which includes 20-year tax-exempt AA rated (or higher) Municipal Bonds, as required by GASB 75), and the employer contributions reported for fiscal 2018 reflect only those amounts required to fund benefit payments in these years.

For the valuation date of January 1, 2019, with the trust established and given the District's intention to fully fund the OPEB Plan, the total OPEB liability as of June 30, 2019 was discounted based on the expected long-term return on assets, which assumes that Plan assets will be invested in a diversified portfolio of stocks and bonds.

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

As of the January 1, 2019 and January 1, 2018 measurement dates, the numbers of current and former employees who were eligible, or potentially eligible, for the OPEB Plan were as follows:

	2019	2018
Active	1,448	1,431
Retirees	504	496
Total participants	1,952	1,927

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

(in thousands)	2019	2018
Postemployment medical benefits cost		
Service cost	$ 3,049	$ 2,948
Interest	2,495	2,457
Expected return on plan assets	(219)	-
Administrative expenses	15	-
Recognition of deferred amounts	(4,354)	241
Total postemployment medical benefits cost	$ 986	$ 5,646

(in thousands)	2019	2018
Deferred outflows of resources - postemployment medical benefits (OPEB)		
Remaining balance at beginning of year		
Established July 1, 2017		
Change in assumptions	$ 2,971	$ 3,541
Established July 1, 2018		
Difference between expected and actual earnings on plan investments	489	-
Difference between expected and actual experience	368	-
Deferred outflows of resources - postemployment medical benefits (OPEB) at the beginning of the year	3,828	3,541
Amount recognized in current year employee medical benefits cost		
Established July 1, 2017		
Change in assumptions	570	570
Established July 1, 2018		
Difference between expected and actual earnings on plan investments	98	-
Difference between expected and actual experience	60	-
Deferred outflows of resources - postemployment medical benefits (OPEB) amortized during the year	728	570
Deferred outflows of resources - postemployment medical benefits (OPEB) subtotal	3,100	2,971
Amounts of deferred outflows to be recognized in postemployment medical benefits assets		
Employer contributions made after measurement date	1,686	4,500
Deferred outflows of resources - postemployment medical benefits (OPEB) at end of year	$ 4,786	$ 7,471

(in thousands)	**2019**	**2018**
Deferred inflows of resources - postemployment medical benefits (OPEB)		
Remaining balance at beginning of year		
Established July 1, 2016		
Change in assumptions	$ (1,387)	$ (1,716)
Established July 1, 2018		
Change in assumptions	(29,183)	-
Deferred inflows of resources - postemployment medical benefits (OPEB) at the beginning of the year	(30,570)	(1,716)
Amount recognized in current year employee medical benefits cost		
Established July 1, 2016		
Change in assumptions	(330)	(329)
Established July 1, 2018		
Change in assumptions	(4,753)	-
Deferred inflows of resources - postemployment medical benefits (OPEB) amortized during the year	(5,083)	(329)
Deferred inflows of resources - postemployment medical benefits (OPEB) at end of year	$ (25,487)	$ (1,387)

Amounts reported as deferred outflows and inflows of resources – postemployment medical benefits (OPEB) will be recognized in OPEB expense as indicated in the following tables:

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

2020	$ 728
2021	728
2022	728
2023	728
2024	180
Thereafter	8
Total deferred outflows of resources - postemployment medical benefits (OPEB)	$ 3,100

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

2020	$ (5,082)
2021	(5,082)
2022	(5,082)
2023	(4,822)
2024	(4,753)
Thereafter	(666)
Total deferred inflows of resources - postemployment medical benefits (OPEB)	$ (25,487)

The following table summarizes changes in the net postemployment medical benefit (OPEB) liability from July 1, 2017 to June 30, 2019 and related ratios:

(in thousands)	2019	2018
Total postemployment medical benefits (OPEB) liability		
Service cost	$ 3,049	$ 2,948
Interest	2,495	2,457
Difference between expected and actual experience	368	-
Change of assumptions	(29,183)	3,541
Benefit payments	(1,569)	(1,494)
Net change in postemployment medical benefits (OPEB) liability	(24,840)	7,452
Total postemployment medical benefits (OPEB) liability (beginning of year)	70,252	62,800
Total postemployment medical benefits (OPEB) liability (end of year)	45,412	70,252
Plan fiduciary net position		
Employer contributions	9,969	1,494
Net investment income	(270)	-
Benefit payments	(1,569)	(1,494)
Administrative expense	(15)	-
Other	(2)	-
Net change in fiduciary net position	8,113	-
Fiduciary net position (beginning of year)	-	-
Fiduciary net position (end of year)	8,113	-
Net postemployment medical benefits (OPEB) liability (end of year)	$ 37,299	$ 70,252
Fiduciary net position as percent of liability	17.9%	0.0%
Covered employee payroll	173,692	168,165
Net postemployment medical benefits (OPEB) liability as percent of covered payroll[1]	21.5%	41.8%

[1] Required disclosure; neither OPEB Plan contributions nor OPEB Plan benefits are based on covered payroll

The following table summarizes the actuarial assumptions used to determine net OPEB liability and plan fiduciary net position as of June 30, 2019 and June 30, 2018 (unless otherwise indicated, the same assumption was used for the valuations for both years):

Valuation date	January 1
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Economic assumptions (including 3% inflation)	
Projected salary increases	3.00%
Discount rate	January 1, 2019 - 7.50% January 1, 2018 - 3.44%
Demographic assumptions	
Mortality table for healthy participants	RP-2014 base table with two-dimensional projection scale BB projected generationally
Mortality table for disabled participants	RP-2014 Disabled retiree table
Other assumptions	
Healthcare cost trend rate	Getzen Model of Long-Run Medical Cost Trends
Sensitivity of postretirement employee medical benefits liability at January 1, 2019 to changes in the discount rate, with no other changes -	
1 percent decrease (6.50%)	$43,485,000
Current discount rate (7.50%)	$37,299,000
1 percent increase (8.50%)	$32,173,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2019 to changes in the health cost trend rate, with no other changes -	
1 percent decrease	$31,898,000
Current healthcare cost trend rate	$37,299,000
1 percent increase	$43,871,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2018 to changes in the discount rate, with no other changes -	
1 percent decrease (2.44%)	$82,374,000
Current discount rate (3.44%)	$70,252,000
1 percent increase (4.44%)	$60,538,000
Sensitivity of postretirement employee medical benefits liability at January 1, 2018 to changes in the health cost trend rate, with no other changes -	
1 percent decrease	$59,825,000
Current healthcare cost trend rate	$70,252,000
1 percent increase	$83,488,000

The fair value of the District's OPEB investments measured as of January 1, 2019, and used for the purpose of the June 30, 2019 valuation, is reflected in the following table:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Cash And Cash Equivalents (Not Leveled)	Balance At Valuation Date
Money market and mutual funds	$ 4,208	$ -	$ -	$ -	$ 3,905	$ 8,113
Fixed income securities	-	-	-	-	-	-
Domestic equity fund	-	-	-	-	-	-
International equity fund	-	-	-	-	-	-
Private equity fund	-	-	-	-	-	-
Total OPEB assets	$ 4,208	$ -	$ -	$ -	$ 3,905	$ 8,113

13. Insurance Plans

The District is self-insured for its hospital professional, general, and directors and officer's liability insurance up to certain retention levels. The District's hospital professional, general, and directors and officers excess liability insurance is purchased from BETA Healthcare Group (BETA). BETA was formed in 1979 for the purpose of operating a self-insurance program for the excess insurance coverage for certain hospital districts of the Association of California Hospital Districts (ACHD). Effective October 1, 1989, BETA became a separate joint powers authority, establishing itself as a public agency and distinct from ACHD. BETA is managed by a board of 15 elected representatives (the BETA council). The BETA council and its six committees meet quarterly to vote on all matters affecting the program. A representative from the District occupies one seat on the BETA Council.

The District is self-funded for its workers' compensation and has been issued a Certificate of Consent to Self-Insure by the State of California, Department of Industrial Relations. The District purchases excess workers' compensation insurance coverage.

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

Coverage	Policy Limit	Self-insured Retention Per Occurrence
General		
All risk property	$ 1,000,000,000	$ 40,000
Boiler and machinery insurance	100,000,000	10,000
Hospital professional and general liability	40,000,000	25,000
Excess workers' compensation	Statutory	1,250,000
Directors and officers	10,000,000	25,000
Commercial crime	10,000,000	2,500
Automobile insurance	10,000,000	500
Cyber liability	2,000,000	100,000
Cyber excess, including notifications	10,000,000	-

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

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

14. Compensated Absences

District employees earn paid leave at varying rates depending on length of service and job classification. Employees can accumulate up to 640 hours of paid leave. All accumulated unused leave in excess of the maximum accrual amount is paid at the employee's anniversary date. Upon separation, unused vested leave balances are paid in full. As of June 30, 2019 and 2018, the approximate liability for unpaid compensated absences was $16.2 million and $15.3 million, respectively.

15. Statement of Functional Expenses – Foundation

The Foundation's functional expenses can be broken into the following categories:

(in thousands)	Programs	Management and General	Fundraising	Total
Fiscal year ended June 30, 2019	$ 3,035	$ 735	$ 368	$ 4,138
Fiscal year ended June 30, 2018	4,132	921	314	5,367

16. Commitments and Contingencies

Lease Commitments

DEVCO has operating leases for medical clinic facilities. Rental expense under these leases for both fiscal years 2019 and 2018 was $3.1 million.

Future minimum rental commitments for fiscal years ended subsequent to June 30, 2019 are as follows:

(in thousands)	
2020	2,849
2021	2,040
2022	1,594
2023	746
2024	111
Thereafter	-
Total lease commitments	$ 7,340

Purchase Commitments

The District has entered into a purchase contract to acquire land including certain improvements in the southern portion of Fremont, California, near the Bay Area Rapid Transit's Warm Springs station. The acquisition would include an approximately 88,000 square foot building on approximately five acres of land, which was most recently used in manufacturing and includes approximately 30,000 square feet of office space. The District has not yet acquired the property and is currently completing due diligence related to the proposed acquisition. The contract price for the property is approximately $22 million. The District anticipates developing a health services complex on the site that likely would include: primary care services; multi-specialty care services; urgent care and other outpatient services; an ambulatory surgery center; and a pharmacy. The District anticipates one or more joint venture partners participating in development of the complex and these services. No assurances can be given that the acquisition will close in the expected time frame, or at all.

Litigation

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

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

17. Subsequent Events

In July 2019, the District issued refunding and revenue bonds (2019 Series A) to provide new money for future capital expenditures and to refinance the outstanding amounts due on the previously issued 2009 revenue bonds, in order to take advantage of favorable market interest rates. The refunded 2009 revenue bonds were originally issued to provide funds for the construction of the Center for Joint Replacement and several smaller capital projects. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

Also in July 2019, the District issued general obligation refunding bonds (2019 Series A) to refinance the outstanding amounts due on previously issued 2009 general obligation bonds, in order to take advantage of favorable market interest rates. The refunded bonds were originally issued to provide funds for the construction of a new Central Utility Plant and other major construction projects. The repayment of the general obligation refunding bonds will be funded through property tax assessments to residents of the District.

Required Supplementary Schedules

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Pension Plan and OPEB Plan Portfolios

Long term (30-year) expected rate of returns are forecasted on a forward-looking basis by each asset class. Then the total portfolio's return is forecasted by combining returns of the asset classes based on the respective Plan's asset allocation targets as well as the asset classes' diversification benefits. The forecasting method takes into consideration current market conditions, as well as potential future changes, such as yield shifts or valuation changes. For example, equity asset class methodology includes two models that focus on variables including expected earnings growth, dividend income and expected inflation to triangulate on a reasonable expected return. Fixed income models rely heavily on the existing yield environment but current projections assume a rising rate environment, given that prevailing yields are near historic lows. The forecasting methodology combines insights of expected returns for the next immediate period and a long term equilibrium period, to maintain capital markets' long term integrity.

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

	Long Term	
Total portfolio	7.50 %	
Total portfolio asset allocation		**Asset Class Expected Returns**
U.S. Equity	35 %	8.50 %
Non U.S. Equity	25 %	8.80 %
Core fixed income	20 %	5.40 %
Opportunistic credit	15 %	6.20 %
Real assets	5 %	5.80 %
Total	100 %	

Defined Benefit Retirement Plan

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

(in thousands)	Actuarially Determined Contribution	Actual Contribution	Contribution Excess (Deficiency)	Covered Payroll	Contributions as % of Covered Payroll
Fiscal Year Ended					
2010	$ 12,594	$ -	$ (12,594)	$ 121,053	0.00%
2011	15,683	-	(15,683)	131,700	0.00%
2012	18,344	-	(18,344)	142,590	0.00%
2013	19,800	-	(19,800)	145,324	0.00%
2014	18,500	134,026	115,526	144,445	92.79%
2015	18,000	22,700	4,700	136,999	16.57%
2016	17,700	22,100	4,400	142,319	15.53%
2017	22,300	22,000	(300)	146,438	15.02%
2018	23,100	22,300	(800)	168,165	13.26%
2019	23,100	28,875	5,775	173,692	16.62%
	$ 189,121	$ 252,001	$ 62,880		

Washington Township Health Care District
Required Supplementary Pension and Postemployment Benefits Information (unaudited)

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

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

The following table summarizes changes in net pension liability from July 1, 2012 to June 30, 2019:

(in thousands)	2019	2018	2017	2016	2015	2014	2013
Total pension liability							
Service cost	$ 8,190	$ 6,500	$ 6,494	$ 5,669	$ 5,434	$ 5,456	$ 6,580
Interest	26,693	24,436	24,263	23,657	21,585	20,223	19,283
Difference between expected and actual experience	(8,586)	15,019	8,244	(13,656)	578	4,395	(5,173)
Change in assumptions	-	-	-	-	14,522	362	2,148
Benefit payments	(16,330)	(15,043)	(30,410)	(13,760)	(13,762)	(11,483)	(9,298)
Net change in total pension liability	9,967	30,912	8,591	1,910	28,357	18,953	13,540
Total pension liability (beginning of year)	365,118	334,206	325,615	323,705	295,348	276,395	262,855
Total pension liability (end of year) (a)	375,085	365,118	334,206	325,615	323,705	295,348	276,395
Plan fiduciary net position							
Employer contributions	23,100	22,300	22,000	27,100	36,200	115,526	-
Employee contributions	1,235	980	732	374	139	-	-
Net investment income	(18,935)	42,293	7,817	1,740	10,805	19,342	12,619
Benefit payments	(16,330)	(15,043)	(30,410)	(13,760)	(13,762)	(11,483)	(9,298)
Administrative expense	(224)	(252)	(216)	(64)	(65)	(62)	(69)
Other	-	(1)	(126)	-	-	-	-
Net change in fiduciary net position	(11,154)	50,277	(203)	15,390	33,317	123,323	3,252
Plan fiduciary net position (beginning of year)	322,729	272,452	272,655	257,265	223,948	100,625	97,373
Plan fiduciary net position (end of year) (b)	311,575	322,729	272,452	272,655	257,265	223,948	100,625
Net pension liability (end of year) (a) - (b)	$ 63,510	$ 42,389	$ 61,754	$ 52,960	$ 66,440	$ 71,400	$ 175,770
Plan fiduciary net position as percent of total pension liability	83.1 % [1]	88.4 %	81.5 %	83.7 %	79.5 % [1]	75.8 % [1]	36.4 %
Covered payroll	173,692	168,165	146,438	142,319	136,999	144,445	145,324
Net pension liability as percent of covered payroll	36.6 % [2]	25.2 %	42.2 %	37.2 %	48.5 % [2]	49.4 % [2]	121.0 %
Deferred outflows of resources							
Employer contributions after measurement date	$ 5,775	$ -	$ -	$ -	$ 5,000	$ 18,500	$ -
[1] Fiduciary net position as percent of liability including deferred outflows of resources	84.6 %	88.4 %	81.5 %	83.7 %	81.0 %	82.1 %	36.4 %
[2] Net pension liability as percent of covered payroll including deferred outflows of resources	33.2 %	25.2 %	42.2 %	37.2 %	44.8 %	36.6 %	121.0 %

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

Discount rate	7.50%
Demographic assumptions	
Mortality table for healthy participants	RP-2014 base table with two-dimensional projection scale BB projected generationally
Mortality table for disabled participants	RP-2014 Disabled retiree table

Washington Township Health Care District
Required Supplementary Pension and Postemployment Benefits Information (unaudited)

Defined Benefit Post-Employment Medical Plan (OPEB)

The following table summarizes contributions to the OPEB Plan from July 1, 2016 (year of GASB 75 adoption) to June 30, 2019:

(in thousands)	Actuarially Determined Contribution	Actual Contribution	Contribution Excess (Deficiency)	Covered Payroll [1]	Contributions as % of Covered Payroll [1]
Fiscal Year Ended					
2017	$ 5,099	$ 1,455	$ (3,644)	$ 146,438	0.99%
2018	5,451	5,995	544	168,165	3.56%
2019	6,200	6,400	200	173,692	3.68%
	$ 16,750	$ 13,850	$ (2,900)		

[1] Required disclosure; neither OPEB Plan contributions nor OPEB Plan benefits are based on covered payroll

The following table summarizes changes in the net postemployment medical benefits (OPEB) liability from July 1, 2016 (year of GASB 75 adoption) to June 30, 2019, and related ratios:

(in thousands)	2019	2018	2017
Total postemployment medical benefits (OPEB) liability			
Service cost	$ 3,049	$ 2,948	$ 3,007
Interest	2,495	2,457	2,260
Difference between expected and actual experience	368	-	-
Change of assumptions	(29,183)	3,541	(2,045)
Benefit payments	(1,569)	(1,494)	(1,412)
Net change in postemployment medical benefits (OPEB) liability	(24,840)	7,452	1,810
Total postemployment medical benefits (OPEB) liability (beginning of year)	70,252	62,800	60,990
Total postemployment medical benefits (OPEB) liability (end of year)	45,412	70,252	62,800
Plan fiduciary net position			
Employer contributions	9,969	1,494	1,412
Net investment income	(270)	-	-
Benefit payments	(1,569)	(1,494)	(1,412)
Administrative expense	(15)	-	-
Other	(2)	-	-
Net change in fiduciary net position	8,113	-	-
Fiduciary net position (beginning of year)	-	-	
Fiduciary net position (end of year)	8,113	-	-
Net postemployment medical benefits (OPEB) liability (end of year)	$ 37,299	$ 70,252	$ 62,800
Fiduciary net position as percent of liability	17.9% [1]	0.0% [1]	0.0%
Covered employee payroll	173,692	168,165	146,438
Net postemployment medical benefits (OPEB) liability as percent of covered payroll[3]	21.5% [2]	41.8% [2]	42.9%
Deferred outflows of resources			
Employer contributions after measurement date	$ 1,686	$ 4,500	$ -
[1] Fiduciary net position as percent of liability including deferred outflows of resources	21.6 %	6.4 %	0.0 %
[2] Net OPEB liability as percent of covered payroll including deferred outflows of resources	20.5 %	39.1 %	42.9 %

[3] Required disclosure; neither OPEB Plan contributions nor OPEB Plan benefits are based on covered payroll

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

Discount rate	January 1, 2019 - 7.50%
	January 1, 2018 - 3.44%
	January 1, 2017 - 3.78%
	January 1, 2016 - 3.57%
Other assumptions	
Healthcare cost trend rate	Getzen Model of Long-Run Medical Cost Trends