

Washington Township Health Care District

**Financial Statements
June 30, 2013 and 2012**

Washington Township Health Care District
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June 30, 2013 and 2012

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Independent Auditor's Report

The Board of Directors
Washington Township Health Care District

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Washington Township Health Care District (the "District") as of and for the years ended June 30, 2013 and June 30, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Washington Township Health Care District at June 30, 2013 and June 30, 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

The accompanying Management's Discussion and Analysis on pages 3 through 16 and the Supplemental Pension and Post-Employment Benefit Information on pages 50 through 53 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 Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Princeton & Associates LLP

October 28, 2013

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Overview of the Financial Statements

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

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

District Financial Highlights for Fiscal Year 2013

- Total assets increased \$25.4 million, from \$849.7 million at June 30, 2012 to \$875.1 million at June 30, 2013. Total cash and investments decreased by \$10.7 million, from \$380.9 million to \$370.2 million, while net patient accounts receivable of \$67.6 million at June 30, 2013 increased by \$0.1 million from \$67.5 million at June 30, 2012. Days of gross revenue in accounts receivable were 58 at June 30, 2013 as compared to 60 at June 30, 2012. Net capital assets increased \$41.3 million, from \$365.9 million to \$407.2 million.
- Total liabilities increased \$25.3 million, from \$439.0 million at June 30, 2012 to \$464.3 million at June 30, 2013. Current liabilities increased \$12.6 million, from \$85.9 million to \$98.5 million, and long-term liabilities increased \$12.8 million, from \$353.0 million to \$365.8 million.
- Net position of \$410.8 million at June 30, 2013 was the same as at June 30, 2012.

District Financial Highlights for Fiscal Year 2012

- Total assets increased \$13.8 million, from \$835.9 million at June 30, 2011 to \$849.7 million at June 30, 2012. Total cash and investments decreased by \$33.6 million, from \$414.5 million to \$380.9 million, while net patient accounts receivable increased \$1.2 million, from \$66.3 million to \$67.5 million. Days of gross revenue in accounts receivable were 60 at June 30, 2012 as compared to 66 at June 30, 2011. Net capital assets increased \$50.3 million, from \$315.6 million to \$365.9 million.
- Total liabilities increased \$16.4 million, from \$422.6 million at June 30, 2011 to \$439.0 million at June 30, 2012. Current liabilities increased \$4.4 million, from \$81.5 million to \$85.9 million, and long-term liabilities increased \$11.9 million, from \$341.1 million to \$353.0 million.
- Net position decreased \$2.6 million during 2012, from \$413.4 million to \$410.8 million.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Foundation Financial Highlights for Fiscal Year 2013

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

Foundation Financial Highlights for Fiscal Year 2012

- Total assets of \$7.2 million at June 30, 2012 were unchanged from the June 30, 2011 amount. Total cash and investments decreased by \$0.2 million, from \$5.2 million to \$5.0 million, while net contributions receivable increased \$0.2 million from \$2.0 million to \$2.2 million.
- Net assets of \$7.2 million at June 30, 2012 were consistent with the \$7.2 million amount at June 30, 2011.

Financial Analysis of the District

The District's net position of \$410.8 million at June 30, 2013 was unchanged from June 30, 2012.

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

<i>(in thousands)</i>	2013	2012	2011
Assets			
Current assets	\$ 117,956	\$ 108,973	\$ 108,710
Long-term investment and restricted funds	330,469	348,662	383,187
Capital assets, net	407,220	365,898	315,564
Other assets	19,420	26,213	28,474
Total assets	<u>\$ 875,065</u>	<u>\$ 849,746</u>	<u>\$ 835,935</u>
Liabilities			
Current liabilities	\$ 98,494	\$ 85,921	\$ 81,508
Long-term debt	273,101	283,192	292,147
Other long-term liabilities	92,690	69,840	48,927
Total liabilities	<u>\$ 464,285</u>	<u>\$ 438,953</u>	<u>\$ 422,582</u>
Net Position			
Invested in capital assets, net of related debt	\$ 237,762	\$ 147,024	\$ 129,415
Restricted - expendable	2,801	2,800	2,800
Reserved for minority interest	5,048	6,136	5,646
Unrestricted	165,169	254,833	275,492
Total net position	<u>410,780</u>	<u>410,793</u>	<u>413,353</u>
Total liabilities and net position	<u>\$ 875,065</u>	<u>\$ 849,746</u>	<u>\$ 835,935</u>

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

In 2013, the District's cash and investment position decreased \$10.7 million.

Table 2 provides a summary of cash and investments as of June 30, 2013, 2012 and 2011.

<i>(in thousands)</i>	2013	2012	2011
Cash and cash equivalents and short-term investments	\$ 39,700	\$ 32,261	\$ 31,321
Board designated fund – funded depreciation	163,023	170,923	188,511
Board designated fund – pension funding	114,366	92,023	69,403
Workers' compensation fund	11,310	11,402	11,102
Unexpended capital bond fund, excluding amounts required for current liabilities	38,969	71,513	111,371
Specific purpose fund	2,801	2,800	2,800
Total available cash and investments	<u>\$ 370,169</u>	<u>\$ 380,922</u>	<u>\$ 414,508</u>

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

As of June 30, 2013, the District has reserved \$114.4 million as Board designated funds for future pension plan funding. The funded ratio for the pension plan would be approximately 85.3% at June 30, 2013 if these funds were included in the pension plan assets.

Capital Assets, Net

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

Net capital assets increased \$50.3 million, from \$315.6 million at June 30, 2011 to \$365.9 million at June 30, 2012. This increase resulted from \$60.2 million in capital additions and \$11.7 million in net capitalized interest expense and investment income, offset by \$21.6 million in operating and non-operating depreciation of the District's assets. The capital additions include \$185.7 million in equipment, building, and land improvements combined with a decrease of \$113.8 million in construction in progress. The majority of the capital expenditures in the current year were related to construction work on the Central Utility Plant and the new Center for Joint Replacement. The District continued its investment in information technology, most significantly with the purchase of the Epic EHR, which provides an integrated patient record. At June 30, 2012, outstanding commitments related to capital projects totaled \$4.3 million.

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

Washington Township Health Care District

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

Debt Administration

As part of the obligations under the bond indentures for the 2010, 2009, 2007 and 1999 Series Revenue Bonds, the District has agreed to maintain Washington Hospital's long-term debt coverage ratio of no less than 1.1 to 1.0 on a yearly basis. As of June 30, 2013, Washington Hospital's long-term debt coverage ratio was 2.7 to 1.0. For the year ended June 30, 2012, Washington Hospital's long-term debt coverage ratio was 2.1 to 1.0. During the year ended June 30, 2013, Washington Hospital's Moody's rating of Baa1 was unchanged.

Table 3 shows the revenues, expenses, and changes in net position for the District for the year ended June 30, 2013, 2012 and 2011:

<i>(in thousands)</i>	2013	2012	2011
Operating revenues			
Net patient service revenues	\$ 467,029	\$ 449,755	\$ 464,021
Other	9,459	9,479	11,540
Total operating revenues	<u>476,488</u>	<u>459,234</u>	<u>475,561</u>
Operating expenses			
Salaries and wages	195,107	203,027	197,387
Employee benefits	85,806	82,743	73,681
Supplies	58,664	60,070	58,659
Professional fees	48,748	54,395	41,485
Purchased services	44,919	42,764	36,723
Depreciation	28,142	22,958	19,307
Insurance	2,352	2,294	2,260
Goodwill impairment	2,038	-	-
Other operating expenses	9,942	9,669	9,296
Total operating expenses	<u>475,718</u>	<u>477,920</u>	<u>438,798</u>
Operating income/(loss)	770	(18,686)	36,763
Non-operating revenues and expenses, net	319	19,433	16,324
Increase in net position before special item	1,089	747	53,087
Grant to Alameda County Health Care Services	-	(2,000)	-
Increase/(decrease) in net position before Minority Interest and restricted funds	1,089	(1,253)	53,087
Release of restricted funds	-	-	(4)
Additional Minority Interest Capital Received	313	-	-
Minority Interest Distributions	(1,415)	(1,307)	3,533
Increase/(decrease) in net position	(13)	(2,560)	56,616
Net position			
Beginning of year	<u>410,793</u>	<u>413,353</u>	<u>356,737</u>
End of year	<u>\$ 410,780</u>	<u>\$ 410,793</u>	<u>\$ 413,353</u>

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Financial Analysis of the Foundation

Total Foundation assets of \$7.3 million at June 30, 2013 increased by \$0.1 million from \$7.2 million at June 30, 2012. The Foundation's net assets also increased by \$0.1 million, from \$7.2 million at June 30, 2012 to \$7.3 million at June 30, 2013. The Foundation's net assets at June 30, 2012 were unchanged from \$7.2 million at June 30, 2011.

Table 4 provides a summary of the Foundation's assets, liabilities, and net assets as of June 30, 2013, 2012 and 2011:

<i>(in thousands)</i>	2013	2012	2011
Assets			
Cash and cash equivalents	\$ 698	\$ 444	\$ 313
Contributions receivable, net	1,971	2,246	2,015
Short term investments held by district on behalf of foundation	3,337	3,383	3,783
Prepaid expenses and other	-	29	14
Investments	<u>1,259</u>	<u>1,125</u>	<u>1,101</u>
Total assets	<u>\$ 7,265</u>	<u>\$ 7,227</u>	<u>\$ 7,226</u>
Liabilities			
Accounts payable and accrued expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets			
Restricted - expendable	669	837	6,649
Unrestricted	<u>6,596</u>	<u>6,390</u>	<u>577</u>
Total net assets	<u>7,265</u>	<u>7,227</u>	<u>7,226</u>
Total liabilities and net assets	<u>\$ 7,265</u>	<u>\$ 7,227</u>	<u>\$ 7,226</u>

In 2013, the Foundation's cash and investment position, including State of California Local Agency Investment Fund (LAIF) investments held by the District on behalf of the Foundation, increased \$0.3 million, from \$5.0 million at June 30, 2012 to \$5.3 million at June 30, 2013. In 2012, 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 \$0.2 million, from \$5.2 million at June 30, 2011 to \$5.0 million at June 30, 2012.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Table 5 provides a summary of cash and investments for the Foundation as of June 30, 2013, 2012 and 2011:

<i>(in thousands)</i>	2013	2012	2011
Cash and cash equivalents	\$ 698	\$ 444	\$ 313
Money market and certificates of deposit	524	520	519
Equity mutual fund	735	605	582
	<u>1,957</u>	<u>1,569</u>	<u>1,414</u>
Local Agency Investment Funds held by District on behalf of Foundation	<u>3,337</u>	<u>3,383</u>	<u>3,783</u>
Total available cash and investments	<u>\$ 5,294</u>	<u>\$ 4,952</u>	<u>\$ 5,197</u>

Table 6 shows the Foundation's activities and changes in net position for 2013, 2012 and 2011:

<i>(in thousands)</i>	2013			2012			2011	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted
Revenues, gains, and support								
Contributions	\$ 5	\$ 911	\$ 916	\$ 210	\$ 1,480	\$ 1,690	\$ 7	\$ 2,720
Contributed services	204	49	253	333	39	372	582	26
Investment income	45	-	45	22	-	22	31	-
Unrealized gain (loss) on investments	108	-	108	45	-	45	133	-
	<u>362</u>	<u>960</u>	<u>1,322</u>	<u>610</u>	<u>1,519</u>	<u>2,129</u>	<u>753</u>	<u>2,746</u>
Net assets released from restrictions	755	(755)	-	1,779	(1,779)	-	1,964	(1,964)
Total revenues, gains, and support	<u>1,117</u>	<u>205</u>	<u>1,322</u>	<u>2,389</u>	<u>(260)</u>	<u>2,129</u>	<u>2,717</u>	<u>782</u>
Expenses								
General and administrative	612	-	612	598	-	598	831	-
Donation to Pathways Hospice	-	-	-	25	-	25	85	-
Donations for Haiti Relief	-	-	-	5	-	5	-	-
Mitchell Scholarship	-	-	-	-	-	-	3	-
Beretta Scholarship	-	-	-	-	-	-	2	-
Donation to George Mark Children's House	-	-	-	25	-	25	-	-
Donation to Citizens for Measure Z	75	-	75	-	-	-	-	-
Donation to Washington Township Health Care District	-	-	-	-	-	-	-	-
	<u>597</u>	<u>-</u>	<u>597</u>	<u>1,475</u>	<u>-</u>	<u>1,475</u>	<u>1,651</u>	<u>-</u>
Total expenses	<u>1,284</u>	<u>-</u>	<u>1,284</u>	<u>2,128</u>	<u>-</u>	<u>2,128</u>	<u>2,572</u>	<u>-</u>
Increase (decrease) in net position	(167)	205	38	261	(260)	1	145	782
Net position								
Beginning of year	<u>838</u>	<u>6,389</u>	<u>7,227</u>	<u>577</u>	<u>6,649</u>	<u>7,226</u>	<u>432</u>	<u>5,867</u>
End of year	<u>\$ 671</u>	<u>\$ 6,594</u>	<u>\$ 7,265</u>	<u>\$ 838</u>	<u>\$ 6,389</u>	<u>\$ 7,227</u>	<u>\$ 577</u>	<u>\$ 6,649</u>

Fiscal Year 2013 Revenue and Expense Analysis for the District

Net Patient Service Revenues

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

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

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Inpatient Business Activity

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

Table 7 presents the patient days for each year and the percentage change:

	2013 Days	2012 Days	% Change
Specialty			
Medical/Surgical	45,658	50,256	-9.15%
Critical Care	8,526	8,629	-1.19%
Pediatrics	728	758	-3.96%
Obstetrics	5,493	5,594	-1.81%
	<u>60,405</u>	<u>65,237</u>	<u>-7.41%</u>
Newborn	<u>4,229</u>	<u>4,218</u>	<u>0.26%</u>
Total Patient Days	<u><u>64,634</u></u>	<u><u>69,455</u></u>	<u><u>-6.94%</u></u>

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

Outpatient Business Activity

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

Deductions from Revenue

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

Charity Care

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

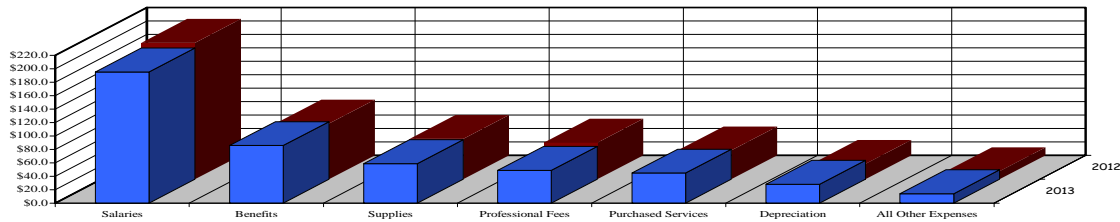
Provisions for Bad Debt

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

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Operating Expenses

Total operating expenses were \$475.7 million and \$477.9 million for the years ended June 30, 2013 and 2012, respectively, as summarized in the graph below:



Salaries and Wages

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

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

Approximately 70% of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various Memoranda of Understanding that have been approved by the District's Board of Directors.

Employee Benefits

Overall, the District's benefits cost rose by 3.7%, from \$82.7 million at June 30, 2012 to \$85.8 million at June 30, 2013. This amount increased due to severance costs associated with the reduction in force, higher pension costs and workers compensation claims.

Fiscal Year 2012 Revenue and Expense Analysis for the District

Net Patient Service Revenues

For the year ended June 30, 2012, net patient service revenues decreased by \$14.3 million or 3.1%. The net decrease resulted from a decrease in patient days, lower surgical volumes and increased emergency room activities.

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.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Inpatient Business Activity

The District's gross inpatient revenue increased 1%, from \$1.47 billion in fiscal year 2011 to \$1.48 billion in fiscal year 2012. Total acute patient days (excluding newborns) decreased by 1,196, from 66,433 to 65,237. The overall increase in inpatient revenue can be attributed to higher acuity surgical procedures.

Table 7 presents the patient days for each year and the percentage change:

	2012 Days	2011 Days	% Change
Specialty			
Medical/Surgical	50,256	51,086	-1.6%
Critical Care	8,629	8,883	-2.9%
Pediatrics	758	951	-20.3%
Obstetrics	5,594	5,513	1.5%
	<u>65,237</u>	<u>66,433</u>	<u>-1.8%</u>
Newborn	<u>4,218</u>	<u>4,285</u>	<u>-1.6%</u>
Total Patient Days	<u>69,455</u>	<u>70,718</u>	<u>-1.8%</u>

The overall case mix index for the District, which is a measure of patient acuity, decreased from 1.4370 in 2011 to 1.4190 in 2012.

Outpatient Business Activity

The District's gross outpatient revenue increased 6.8% in the current year, from \$485.5 million in fiscal year 2011 to \$518.4 million in fiscal year 2012. The increase was due primarily to increases in outpatient surgical volumes, coupled with an increase in outpatient visits at Washington Township Medical Foundation (WTMF) sites.

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 73.95% and 73.63% for fiscal years ended June 30, 2012 and 2011, respectively.

Charity Care

The District provides care without charge to patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$18.5 million and \$23.5 million in charges foregone related to charity care for patient services during fiscal years 2012 and 2011, respectively.

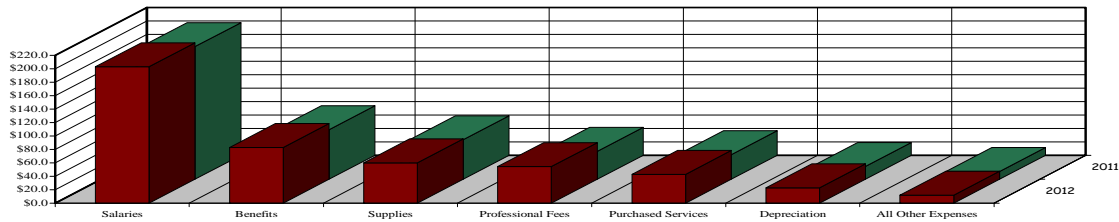
Provisions for Bad Debt

The provisions for bad debt (expressed as a percentage of gross revenues) were 3.31% in 2012, compared to 2.33% in 2011. Private Pay charges, as a percentage of total gross charges, were 6.4% and 5.7% for the fiscal years ended June 30, 2012 and 2011, respectively.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Operating Expenses

Total operating expenses were \$477.9 million and \$438.8 million for the years ended June 30, 2012 and 2011, respectively, as summarized in the graph below:



Salaries and Wages

Total District salaries and wages increased 2.8%, from \$197.4 million in 2011 to \$203.0 million in 2012. The increase in salaries and wages were attributable to contract increases of between 1.5% and 3%, coupled with the growth of WTMF.

Total FTEs increased by 23 to 1,867 at June 30, 2012, from 1,844 at June 30, 2011, an increase of 1.2%. A portion of the increase in FTEs was due to the opening the Sandy Amos Infusion Center in December 2011. The majority of the increase in FTEs was due to the growth of WTMF.

Approximately 61% of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various Memoranda of Understanding that have been approved by the District's Board of Directors.

Employee Benefits

Overall, the District's benefits cost rose by 12.2%, from \$73.7 million at June 30, 2011 to \$82.7 million at June 30, 2012. The increase resulted from a higher level of full time equivalents, higher pension and health and welfare costs, and increased benefit utilization.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

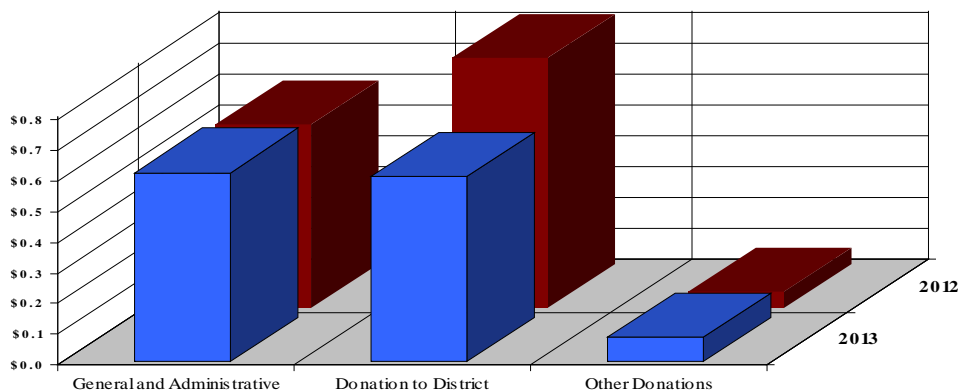
Fiscal Year 2013 Revenue and Expense Analysis for the Foundation

Contributions and Contributed Services

Total contributions and pledges decreased 43.4% from \$2.1 million in 2012 to \$1.2 million in 2013. The completion of the capital campaign to raise funds for the Center for Joint Replacement accounted for the majority of the decline in contribution revenue.

Expenses

Total expenses for the Foundation were \$1.3 million and \$2.1 million for fiscal years ended June 30, 2013 and 2012, respectively, as summarized in the graph below:



Economic Factors Expected to Affect the District's 2014 Operations

The Board of Directors of the District approved the fiscal year 2014 operating budget at their August 2013 meeting. The operating budget was developed after a review of key volume indicators and trends. The budget incorporates the District's current Institutional Agenda as well as economic factors, such as estimated population growth and unemployment rates.

The Fiscal Year 2014 budget anticipates a 5.5% increase in expenditures from the 2013 level with a 31% increase in depreciation, resulting from the 2013 and 2014 phased implementations of the Electronic Health Record (EHR), representing the largest single component of the increase. At the same time, downward pressures on reimbursement levels are expected to continue. In estimating net revenues for 2014, District staff has attempted to incorporate the anticipated effects of the Affordable Care Act, based on the available information. Likewise, the future state of the Bay Area economy, which is also difficult to predict, could have a significant impact on the District's operations. Additional legislation at either the State or Federal level may affect the accuracy of many of the assumptions included in the budget estimate.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

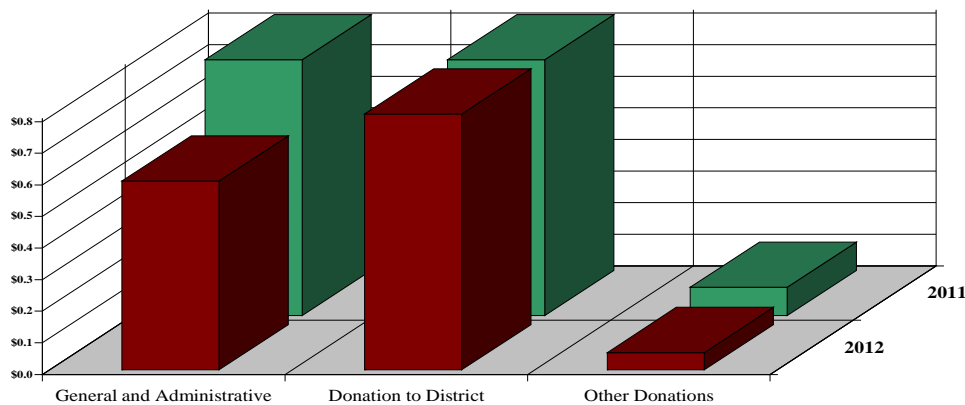
Fiscal Year 2012 Revenue and Expense Analysis for the Foundation

Contributions and Contributed Services

Total contributions and pledges decreased 38% from \$3.3 million in 2011 to \$2.1 million in 2012. The capital campaign to raise funds for construction of the new Critical Care Pavilion and Center for Joint Replacement continued to generate a significant portion of the contribution revenue.

Expenses

Total expenses for the Foundation were \$2.1 million and \$2.6 million for fiscal years ended June 30, 2012 and 2011, respectively, as summarized in the graph below:



Economic Factors Expected to Affect the District's 2013 Operations (should)

The Board of Directors of the District approved the fiscal year 2012-2013 operating budget at the July 2012 meeting. The operating budget was developed after a review of key volume indicators and trends. The budget incorporates the District's current Institutional Agenda as well as economic factors, such as estimated population growth and unemployment rates.

The Fiscal Year 2013 budget also anticipates decreases in reimbursement from the Medicare and Medi-Cal programs, as well as an increase in uncompensated care, arising from an increase in uninsured patients as challenges in the U.S. economy and resulting unemployment continue. While estimates of the impact of these factors have been included in the budget, the final outcome is uncertain and may vary significantly dependent upon legislative actions at both the State and Federal level and economic performance during the year.

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

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

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

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

Health Care Reform Bill

On March 23, 2012, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2012 the Health Care and Education Reconciliation Act of 2012 was signed, amending the PPACA (collectively the "Affordable Care Act"). On June 29, 2012, the Supreme Court upheld the constitutionality of much of the Affordable Care Act. The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The coverage expansion is accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordability Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the health care reform legislation were effective immediately; with others originally scheduled to be phased in through 2014. The effective date for certain provisions have now been delayed, with further changes probable but difficult to predict. The District will likely be affected by the coverage expansion provisions that go into effect in 2014, the effect of which remains undeterminable at this time.

Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 established one-time incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. A hospital may receive an incentive payment for up to four years, from 2011 through 2015, by meeting a series of objectives that make use of EHR's potential related to the improvement of quality, efficiency and patient safety. Meaningful use is assessed on a year-by-year basis and requires attestation by the facility that the criteria have been satisfied. While no incentive amounts were received in 2012, the District received \$1.2 million in EHR incentive funding from Medi-Cal in 2013 and the District expects to qualify for additional meaningful use incentive payments in future years.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Cautionary Note Regarding Forward-Looking Statements

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

Washington Township Health Care District
Statements of Net Position
June 30, 2013 and 2012

	<u>District</u>		<u>Foundation</u>	
	2013	2012	2013	2012
Assets				
Current assets				
Cash and cash equivalents	\$ 11,117,000	\$ 12,117,000	\$ 698,000	\$ 444,000
Short-term investments	28,583,000	20,144,000	1,259,000	1,125,000
Short-term investments held by District on behalf of Foundation	-	-	3,337,000	3,383,000
Patient accounts receivable, less allowance for estimated uncollectibles of \$38,766,000 and \$34,999,000 in 2013 and 2012, respectively	67,579,000	67,529,000	-	-
Contributions receivable, net, due in less than 1 year	-	-	53,000	79,000
Supplies	3,363,000	2,633,000	-	-
Prepaid expenses and other	7,314,000	6,550,000	-	29,000
Total current assets	<u>117,956,000</u>	<u>108,973,000</u>	<u>5,347,000</u>	<u>5,060,000</u>
Long-term investment and restricted funds				
Board-designated for capital, debt and workers' compensation	174,333,000	182,326,000	-	-
Board-designated for pension funding	114,366,000	92,023,000	-	-
Held by trustee	38,969,000	71,513,000	-	-
Restricted funds	2,801,000	2,800,000	-	-
Capital assets, net	407,220,000	365,898,000	-	-
Other assets				
Contributions receivable, net, due in more than 1 year	-	-	1,918,000	2,167,000
Unamortized bond issuance costs and other	3,270,000	3,490,000	-	-
Goodwill	7,394,000	9,432,000	-	-
Other noncurrent asset	8,756,000	13,291,000	-	-
Total assets	<u>\$ 875,065,000</u>	<u>\$ 849,746,000</u>	<u>\$ 7,265,000</u>	<u>\$ 7,227,000</u>
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term debt	\$ 10,175,000	\$ 9,670,000	\$ -	\$ -
Accounts payable and accrued expenses	37,273,000	25,265,000	-	-
Due to Foundation	3,337,000	3,387,000	-	-
Due to government agencies	4,610,000	161,000	-	-
Accrued liabilities				
Payroll related	10,307,000	7,538,000	-	-
Vacation	14,989,000	14,856,000	-	-
Health benefits	3,430,000	3,617,000	-	-
Interest	7,219,000	7,429,000	-	-
Other	7,154,000	13,998,000	-	-
Total current liabilities	<u>98,494,000</u>	<u>85,921,000</u>	<u>-</u>	<u>-</u>
Long-term liabilities				
Workers' compensation claims	8,300,000	7,416,000	-	-
Liability for pension cost	52,098,000	32,485,000	-	-
Post-retirement employee medical benefits	32,292,000	29,939,000	-	-
Long-term debt, net of current maturities	218,355,000	222,623,000	-	-
Long-term debt, general obligation bonds	54,746,000	60,569,000	-	-
Total long-term liabilities	<u>365,791,000</u>	<u>353,032,000</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>464,285,000</u>	<u>438,953,000</u>	<u>-</u>	<u>-</u>
Net position				
Invested in capital assets, net of related debt	237,762,000	147,024,000	-	-
Restricted - expendable	2,801,000	2,800,000	6,596,000	6,390,000
Reserved for minority interest	5,048,000	6,136,000	-	-
Unrestricted	165,169,000	254,833,000	669,000	837,000
Total net position	<u>410,780,000</u>	<u>410,793,000</u>	<u>7,265,000</u>	<u>7,227,000</u>
Total liabilities and net position	<u>\$ 875,065,000</u>	<u>\$ 849,746,000</u>	<u>\$ 7,265,000</u>	<u>\$ 7,227,000</u>

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

Washington Township Health Care District
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2013 and 2012

	<u>District</u>		<u>Foundation</u>	
	2013	2012	2013	2012
Operating revenues				
Net patient service revenues	\$ 467,029,000	\$ 449,755,000	\$ -	\$ -
Other	8,862,000	8,004,000	-	-
Contributions	597,000	1,475,000	916,000	1,690,000
Contributed services	-	-	253,000	372,000
Total operating revenues	<u>476,488,000</u>	<u>459,234,000</u>	<u>1,169,000</u>	<u>2,062,000</u>
Operating expenses				
Salaries and wages	195,107,000	203,027,000	-	-
Employee benefits	85,806,000	82,743,000	-	-
Supplies	58,664,000	60,070,000	-	-
Professional fees	48,748,000	54,395,000	-	-
Purchased services	44,919,000	42,764,000	-	-
Depreciation	28,142,000	22,958,000	-	-
Insurance	2,352,000	2,294,000	-	-
Donations	-	-	672,000	1,530,000
Goodwill impairment	2,038,000	-	-	-
Other operating expenses	9,942,000	9,669,000	612,000	598,000
Total operating expenses	<u>475,718,000</u>	<u>477,920,000</u>	<u>1,284,000</u>	<u>2,128,000</u>
Operating income (loss)	<u>770,000</u>	<u>(18,686,000)</u>	<u>(115,000)</u>	<u>(66,000)</u>
Non-operating revenues and expenses				
Investment income	5,293,000	6,226,000	45,000	22,000
Net increase (decrease) in the fair value of investments	(5,181,000)	8,688,000	108,000	45,000
Interest expense, including amortization of bond issuance costs and discount on bonds payable	(8,795,000)	(3,714,000)	-	-
Property tax revenue	8,514,000	8,525,000	-	-
Other non-operating income (loss)	488,000	(292,000)	-	-
Total non-operating revenues and expenses	<u>319,000</u>	<u>19,433,000</u>	<u>153,000</u>	<u>67,000</u>
Increase in net position before other changes	1,089,000	747,000	38,000	1,000
Grant to Alameda County Health Care Services	-	(2,000,000)	-	-
Minority interest - additional contributions from	313,000	-	-	-
Minority interest - distributions to	(1,415,000)	(1,307,000)	-	-
Increase/(Decrease) in net position after other changes	<u>(13,000)</u>	<u>(2,560,000)</u>	<u>38,000</u>	<u>1,000</u>
Total net position				
Beginning of year	<u>410,793,000</u>	<u>413,353,000</u>	<u>7,227,000</u>	<u>7,226,000</u>
End of year	<u>\$ 410,780,000</u>	<u>\$ 410,793,000</u>	<u>\$ 7,265,000</u>	<u>\$ 7,227,000</u>

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

Washington Township Health Care District
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	District		Foundation	
	2013	2012	2013	2012
Cash flows from operating activities				
Cash received from patient service activities	\$ 466,979,000	\$ 448,541,000	\$ -	\$ -
Other cash receipts	9,459,000	9,478,000	1,191,000	1,460,000
Cash payments to suppliers	(137,378,000)	(145,839,000)	(330,000)	(242,000)
Cash payments to employees	(278,198,000)	(285,866,000)	-	-
Net cash provided by operating activities	<u>60,862,000</u>	<u>26,314,000</u>	<u>861,000</u>	<u>1,218,000</u>
Cash flows from non-capital financing activities				
Donation from Foundation to District	597,000	1,475,000	(597,000)	(1,475,000)
Other donations	-	-	(75,000)	(55,000)
Grant to Alameda County Health Care Services	-	(2,000,000)	-	-
Net cash provided by/(used in) non-capital financing activities	<u>597,000</u>	<u>(525,000)</u>	<u>(672,000)</u>	<u>(1,530,000)</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(56,408,000)	(59,576,000)	-	-
Principal paid on debt	(9,713,000)	(8,090,000)	-	-
Interest paid on debt	(15,200,000)	(15,600,000)	-	-
Sale of net assets to Minority shareholders in Washington Outpatient Surgery Center, LLC	313,000	11,000	-	-
Net assets distributed to Minority shareholders in Washington Outpatient Surgery Center, LLC	(1,415,000)	(1,318,000)	-	-
Proceeds from debt issuance	267,000	995,000	-	-
Proceeds from property taxes levied by the County	8,999,000	8,865,000	-	-
Net cash used in capital and related financing activities	<u>(73,157,000)</u>	<u>(74,713,000)</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities				
Purchases of investments	(294,201,000)	(519,836,000)	(15,000)	(11,000)
Sales of investments	298,774,000	560,448,000	80,000	432,000
Investment income	5,197,000	6,464,000	-	22,000
Other non-operating income received	928,000	187,000	-	-
Net cash provided by investing activities	<u>10,698,000</u>	<u>47,263,000</u>	<u>65,000</u>	<u>443,000</u>
Net increase/(decrease) in cash and cash equivalents	<u>(1,000,000)</u>	<u>(1,661,000)</u>	<u>254,000</u>	<u>131,000</u>
Cash and cash equivalents				
Beginning of year	12,117,000	13,778,000	444,000	313,000
End of year	<u>\$ 11,117,000</u>	<u>\$ 12,117,000</u>	<u>\$ 698,000</u>	<u>\$ 444,000</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating (loss)/income	\$ 770,000	\$ (18,686,000)	\$ (115,000)	\$ (66,000)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	28,142,000	22,958,000	-	-
Provision for doubtful accounts	71,827,000	65,531,000	-	-
Goodwill impairment	2,038,000	-	-	-
Donations	-	-	672,000	1,530,000
Changes in assets and liabilities				
Accounts receivables	(71,877,000)	(66,746,000)	275,000	(231,000)
Supplies, prepaid expenses, and other current assets	(1,398,000)	1,654,000	29,000	(15,000)
Other assets	4,535,000	1,552,000	-	-
Due to Foundation	50,000	396,000	-	-
Due from/to government agencies	4,449,000	2,803,000	-	-
Accounts payable and accrued expenses	4,778,000	(77,000)	-	-
Payroll, vacation, and health accrued liabilities	2,715,000	(96,000)	-	-
Other liabilities	14,833,000	17,025,000	-	-
Net cash provided by operating activities	<u>\$ 60,862,000</u>	<u>\$ 26,314,000</u>	<u>\$ 861,000</u>	<u>\$ 1,218,000</u>
Non-cash transactions				
Capitalized interest	\$ 6,265,000	\$ 11,666,000	\$ -	\$ -
Accounts payable and accrued expenses for property and equipment purchases	18,212,000	10,982,000	-	-
Contributed services	-	-	253,000	372,000

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

a. Organization

District

Washington Township Health Care District (the District) is a political subdivision of the State of California organized under the Local Health Care District Law, as set forth in the Health and Safety Code of the State of California. It is exempt from federal and state income taxes. The District's mission is to provide broad healthcare services to its residents. The District's boundaries encompass an area of approximately 124 square miles in southern Alameda County. The District operates the Washington Hospital Healthcare System, which consists of Washington Hospital (the Hospital), a 389-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 a primary care clinic. On July 1, 2010, DEVCO purchased a controlling interest in the Washington Outpatient Surgery Center (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 and oversight of DEVCO's operations and financial activity.

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

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

Foundation

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

b. Accounting Standards

District

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

Foundation

As a private nonprofit organization, the Foundation reports under FASB standards, including generally accepted accounting principles for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation figures. No modifications have been made to the Foundation’s financial information in the District’s financial reporting entity for these differences.

c. Use of Estimates

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

d. 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.

e. Cash and Cash Equivalents

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

f. Contributed Services

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

g. Contributions Received

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

h. Promises to Give

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

i. 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.

j. Supplies

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

k. Long-Term Investment and Restricted Funds

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

l. Capital Assets

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

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.

m. Business Combinations and Goodwill

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

Goodwill is tested for impairment annually or more frequently if changing circumstances warrant. Impairment analysis during 2013 resulted in recognition of a \$2.0 million goodwill impairment loss related to the WOSC, LLC. Minority interest equity was reduced by 49% of this amount, or \$1.0 million; the District's equity amount was also reduced by \$1.0 million.

n. Risk Management

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

o. Self-Insurance Plans

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

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

responsibility of individual program participants. The District has coverage on an occurrence basis up to \$40 million per year for professional and general liability through BETA.

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

p. Net Position

District

Net position is composed of the following categories:

Unrestricted

Net position that is neither restricted nor invested in capital assets, net of related debt. Unrestricted net position may be designated for specific purposes by management or the Board of Directors.

Reserved for Minority Interest

Net position of a legally separate organization attributable to other participants. In July 2010, the District acquired Washington Outpatient Surgery Center and concurrently sold a minority interest in WOSC to area physicians. No gain on sale was recognized upon the sale of the minority interest. During 2013, WOSC earned operating income of approximately \$2.1 million. The District distributed a portion of the minority interest's share of 2013 earnings in 2013.

Invested in Capital Assets, Net of Related Debt

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

Restricted

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

Expendable

Net position, whose use by the District is subject to externally-imposed restrictions that can be fulfilled by actions of the District, pursuant to those restrictions or that expire by the passage of time.

Nonexpendable

Net position subject to externally-imposed restrictions that they be retained in perpetuity by the District. There were no such assets as of June 30, 2013 and 2012.

Foundation

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

Unrestricted

Unrestricted net assets represent those resources of the Foundation that are not subject to donor-imposed stipulations. The only limits on unrestricted net position are broad limits resulting from the nature of the Foundation and the purposes specified in its articles of incorporation or bylaws, and limits resulting from contractual agreements, if any.

Temporarily restricted

Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those stipulations or by the passage of time. For financial statement presentation, these are labeled as "Restricted – expendable" in the accompanying financial statements.

q. Concentrations of Credit Risk

District

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

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

The District's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the District's patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Reimbursements from the Medicare program accounted for approximately 27% of the District's net patient service revenues for each of the fiscal years ended June 30, 2013 and 2012. Medicare and Medi-Cal are the only payors that represent more than 10% of the District's net patient accounts receivable as of June 30, 2013. The District maintains an allowance for doubtful accounts based on the expected collectibility 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 127 donor pledges, with the largest individual pledge representing approximately 76% of the total, as of June 30, 2013. The Foundation had 120 donor pledges, with the largest individual pledge representing approximately 67% of the total, as of June 30, 2012.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

r. Statements of Revenues, Expenses, and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions, which include investment income, changes in unrealized gains and losses, interest expense, rental income and property tax revenues are reported as non-operating revenues and expenses.

s. Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Reimbursement from third-party payors under various methodologies is based on the level of care provided. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Retroactive adjustments in 2013 and 2012, related to prior years, including adjustments to prior year estimates, decreased net patient service revenues approximately \$4.7 million in 2013 and increased net patient service revenues approximately \$6.2 million in 2012.

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.

t. Charity Care

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

u. Other Revenue

Other revenue includes revenue from cafeteria, laundry, dietary and certain DEVCO operations. Other revenue for 2013 also includes approximately \$1.2 million received from Medi-Cal in incentive funding related to Electronic Health Record implementation.

v. 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.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

w. Impairment of Long-Lived Assets

In accordance with GASB Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the District is required to evaluate prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. Based on management's evaluation, there were no impairment losses in 2013 and 2012.

x. Income Taxes

District

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

Foundation

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

y. 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.

z. New Accounting Pronouncements

District

GASB Statement No. 61, *The Financing Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. This standard was issued in November 2010 and was effective for periods beginning after June 15, 2012. Adoption of this standard did not have a material impact on the financial statements.

GASB Statement No. 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that includes pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This statement was issued in January 2010 and was effective for periods beginning after December 15, 2011. Adoption of this standard did not have a material impact on the financial statements.

Washington Township Health Care District

Notes to Financial Statements

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GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"), issued in June 2011 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB 63 also renames the measure "net assets" to be "net position". The provisions of this Statement were effective for financial statement for periods beginning after December 15, 2011. Adoption of this standard did not have a material impact on the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, sets forth criteria to properly classify previously reported assets and liabilities as deferred outflows or inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This standard was issued in March 2012 and was effective for periods beginning after December 15, 2012. Management is currently evaluating the effect that Statement No. 65 will have on its financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, effective for the District's fiscal year beginning July 1, 2013. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Management is currently evaluating the effect that Statement No. 66 will have on its financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, an amendment to GASB 27 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. This statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position and a statement in fiduciary net position. It enhances note disclosures and RSI for both defined benefit and defined contribution pension plans and also requires the presentation of new information about annual money-weighted rates of return in the notes and in 10-year RSI schedules. This standard was issued in June 2012 and is effective for periods beginning after June 15, 2013. Management is currently evaluating the effect of this standard on the financial statements.

GASB Statement No 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB 25 requires governments providing pensions through pension plans administered as trusts or similar arrangements that meet certain criteria and requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This standard was issued in June 2012 and is effective for periods beginning after June 15, 2014. Management is currently evaluating the effect of this standard on the financial statements.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

In January 2013, the GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations, effective for the District's fiscal year beginning July 1, 2014. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. The Statement includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without consideration. The provisions of this Statement are applicable on a prospective basis to combinations that occur after the effective date. Management is currently evaluating the effect that Statement No. 69 will have on its financial statements.

In April 2013, the GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for the District's fiscal year beginning July 1, 2013. This Statement establishes standards for recording a liability when a government extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange. As part of the nonexchange financial guarantee, the government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. This standard requires the government that extends a nonexchange financial guarantee to record a liability when qualitative factors and historical data indicate that its more likely than not that the government will be required to make a payment on the guarantee. Management does not believe that this statement will have an impact on its financial statements.

Foundation

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

2. Patient Revenues

Patient revenues consist of the following:

	2013	2012
Gross patient charges		
Routine inpatient services	\$ 403,407,000	\$ 386,457,000
Ancillary inpatient services	1,182,398,000	1,091,930,000
Outpatient services	<u>597,508,000</u>	<u>518,384,000</u>
	2,183,313,000	1,996,771,000
Less charity care	<u>(20,583,000)</u>	<u>(18,462,000)</u>
Gross patient service revenues	<u>2,162,730,000</u>	<u>1,978,309,000</u>
Deductions from gross patient service revenues		
Contractual allowances for statutory and negotiated rates	1,623,874,000	1,463,022,000
Provision for doubtful accounts	<u>71,827,000</u>	<u>65,532,000</u>
	<u>1,695,701,000</u>	<u>1,528,554,000</u>
Net patient service revenues	<u>\$ 467,029,000</u>	<u>\$ 449,755,000</u>

The District has agreements with third-party payors that provide for payments to the District at amounts that differ from established rates. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District also receives Medicare Disproportionate Share (DSH) reimbursements for services provided to a disproportionate percentage of low-income patients. The Medicare program pays hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the District is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory are paid based upon prospectively determined fee schedules. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been audited for all fiscal years through June 30, 2010. The 2006 cost report has not yet been finalized by the Medicare fiscal intermediary, however, there are no items currently pending. All other cost reports through 2010 have been finalized. Services provided to Medi-Cal program beneficiaries are reimbursed at negotiated per-diem rates.

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

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 reserve for uncollectible accounts estimates are recorded as an adjustment to the provision for bad debts, which includes charity care.

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

State of California Assembly Bill ("AB") 1383 of 2009, as amended by AB 1653 (Statutes of 2010) established a series of Medicaid supplemental payments funded through a "Quality Assurance Fee" and a "Hospital Fee Program", which are imposed on certain California hospitals. The original effective date of the Hospital Fee Program was April 1, 2009 through December 31, 2010 and is predicated, in part, on the enhanced Federal Medicaid Assistance Percentage ("FMAP") contained in the American Reinvestment and Recovery Act ("ARRA"). The most recent Hospital Fee Program expires December 31, 2013. The Program makes supplemental payments to hospitals for various health care services and supports the state's effort to maintain health care coverage for children. The District, designated as a public hospital, is exempt from paying the Quality Assurance Fee; however, the District received supplemental payments under the Hospital Fee Program. For the years ended June 30, 2013 and June 30, 2012, the District recognized amounts under the Hospital Fee Program of \$1.2 million and \$0.7 million, respectively, which have been reported as net patient revenue.

Non-Designated Public Hospitals (NDPHs), including the District, were authorized, in 2011's AB 113, to use intergovernmental transfers (IGTs) to obtain federal supplemental funds for Medi-Cal inpatient fee-for-service. The IGTs are used to bring NDPHs, in the aggregate, up to their upper payment limit (UPL). The UPL is the federal maximum available under the Medicaid program, as calculated based on the actual costs of providing care. For the years ended June 30, 2013 and June 30, 2012, the District recognized amounts under the IGT Program of \$1.6 million and \$3.3 million, respectively, which have been reported as net patient revenue.

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

Washington Township Health Care District
Notes to Financial Statements
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based on each eligible hospital's Certified Public Expenditures ("CPE"), which are matched with federal Medicaid funds. For the years ended June 30, 2013 and 2012, the District recorded revenue of \$0.8 million and \$1.8 million, respectively.

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

	2013	2012
Medicare	\$ 1,057,611,000	\$ 930,786,000
Medi-Cal	128,784,000	169,065,000
PPO, HMO and others	866,524,000	768,839,000
Private pay and industrial indemnity	130,394,000	128,081,000
	<u>\$ 2,183,313,000</u>	<u>\$ 1,996,771,000</u>

3. Charity Care

The District maintains records to identify and monitor the level of direct charity care it provides. For the years ended June 30, 2013 and 2012, net patient service revenues excludes charges foregone for charity care services and supplies of approximately \$ 21 million and \$18 million, respectively. In addition, the estimated cost in excess of reimbursement for indigent patients under publicly-sponsored programs was \$48 million and \$46 million, respectively.

4. Contributions Receivable

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

	2013	2012
Critical Care Pavilion	\$ 1,857,000	\$ 1,988,000
Center for Joint Replacement	210,000	341,000
Other	52,000	79,000
Contributions receivable before unamortized discount and allowance for uncollectibles	<u>\$ 2,119,000</u>	<u>\$ 2,408,000</u>
Less: Allowance for uncollectibles	(35,000)	(35,000)
Less: Unamortized discount	(113,000)	(127,000)
Net contributions receivable	<u>\$ 1,971,000</u>	<u>\$ 2,246,000</u>
Amounts due in		
Less than 1 year	\$ 52,000	\$ 79,000
1 to 3 years	1,919,000	2,167,000
	<u>\$ 1,971,000</u>	<u>\$ 2,246,000</u>

Washington Township Health Care District
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The value of contributions receivable represents the Foundation's expected future cash flows from each pledge. For each of the years ended June 30, 2013 and 2012, the Foundation used a discount rate of 6% which management estimates represents the risk-free rate adjusted for the risk of donor default.

5. Temporarily Restricted Net Position

District

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

Foundation

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

	2013	2012
Critical Care Pavilion	\$ 4,647,000	\$ 4,589,000
Center for Joint Replacement	131,000	-
Health-related services	982,000	948,000
Emergency room and critical care	306,000	306,000
Other activities	27,000	148,000
Education and professional recognition	159,000	112,000
Surgical	46,000	-
Childbirth and family services	33,000	33,000
Pathways Hospice	265,000	254,000
	<u>\$ 6,596,000</u>	<u>\$ 6,390,000</u>

6. Related-Party Transactions

The District held \$3,337,000 and \$3,383,000 as of June 30, 2013 and 2012, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated \$597,000 and \$1,475,000 to the District for the fiscal years ended June 30, 2013 and 2012, respectively.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

7. Long-Term Investment and Restricted Funds

District

As of June 30, 2013 and 2012, investment and restricted funds, at fair value, have been set aside as follows:

	2013	2012
Board-designated funds		
Funded depreciation	\$ 191,606,000	\$ 191,068,000
Pension funding	114,366,000	92,023,000
Workers' compensation fund	11,310,000	11,402,000
Funds held by trustee under bond indenture	38,969,000	71,513,000
Restricted funds	<u>2,801,000</u>	<u>2,800,000</u>
Total funds	359,052,000	368,806,000
Short-term investments – required for current liabilities	<u>\$ (28,583,000)</u>	<u>\$ (20,144,000)</u>
Total long-term investment and restricted funds	<u>\$ 330,469,000</u>	<u>\$ 348,662,000</u>

The District is permitted to hold only readily marketable securities. The District's investment policy permits the following investments:

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

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

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

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 111,721,328	\$ 19,996,800	\$ 37,723,609	\$ 54,000,919	\$ -
U.S. Agencies	37,351,118	6,042,646	15,896,897	11,936,797	3,474,778
Corporate Bonds	105,897,706	8,068,444	79,476,844	6,160,111	12,192,307
LAIF (State Pool Demand Deposits)	49,999,430	49,999,430	-	-	-
Money Market and Mutual Funds	54,081,868	54,081,868	-	-	-
Total Investments	<u>\$ 359,051,450</u>	<u>\$ 138,189,188</u>	<u>\$ 133,097,350</u>	<u>\$ 72,097,827</u>	<u>\$ 15,667,085</u>

As of June 30, 2012 the District had the following investments with maturities as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 108,257,000	\$ 13,000,000	\$ 39,310,000	\$ 55,947,000	\$ -
U.S. Agencies	42,485,000	2,117,000	4,729,000	30,149,000	5,490,000
Corporate Bonds	103,453,000	6,834,000	84,628,000	1,935,000	10,056,000
LAIF (State Pool Demand Deposits)	32,399,000	32,399,000	-	-	-
Money Market and Mutual Funds	82,212,000	82,212,000	-	-	-
Total Investments	<u>\$ 368,806,000</u>	<u>\$ 136,562,000</u>	<u>\$ 128,667,000</u>	<u>\$ 88,031,000</u>	<u>\$ 15,546,000</u>

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits investments made by each investment manager to have an average maturity of not more than seven years.

Credit Risk

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

The District's investments at June 30, 2013 are rated as follows:

	Fair Value	Ratings
Investment Type		
U.S. Treasuries	\$ 111,127,000	Not rated
U.S. Agencies	37,351,000	Not rated
Corporate Bonds	106,492,000	See below
Local Agency Investment Fund	49,999,000	Not rated
Money Market and Mutual Funds	54,083,000	Not rated
	<u>\$ 359,052,000</u>	

(in thousands)

	Amount
Corporate Bonds Rating	
AAA	\$ 16,285,000
AA+	6,724,000
AA	6,399,000
AA-	9,265,000
A+	18,586,000
A	17,832,000
A-	13,912,000
BBB+	8,961,000
BBB	8,528,000
	<u>\$ 106,492,000</u>

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

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

Foundation

Investments as of June 30, 2013 and 2012, at fair value are summarized below:

	2013	2012
Money market and certificates of deposit	\$ 524,000	\$ 520,000
Equity mutual fund	735,000	605,000
Local Agency Investment Funds held by District on behalf of Foundation	<u>3,337,000</u>	<u>3,383,000</u>
	<u>\$ 4,596,000</u>	<u>\$ 4,508,000</u>

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

8. Capital Assets

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

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

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

Washington Township Health Care District
Notes to Financial Statements
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Capital assets activity for the year ended June 30, 2012 consisted of the following:

	Beginning Balance June 30, 2011	Increases	Decreases	Ending Balance June 30, 2012
Capital assets, not being depreciated				
Land	\$ 10,482,000	\$ -	\$ -	\$ 10,482,000
Construction in progress	183,710,000	65,501,000	(179,254,000)	69,957,000
Total capital assets not being depreciated	<u>194,192,000</u>	<u>65,501,000</u>	<u>(179,254,000)</u>	<u>80,439,000</u>
Capital assets being depreciated				
Land improvements	7,527,000	3,180,000	-	10,707,000
Buildings	175,480,000	124,167,000	(3,000)	299,644,000
Fixed and moveable equipment	178,633,000	59,212,000	(833,000)	237,012,000
Total capital assets being depreciated	<u>361,640,000</u>	<u>186,559,000</u>	<u>(836,000)</u>	<u>547,363,000</u>
Less: Accumulated depreciation				
Land improvements	(5,866,000)	(307,000)	-	(6,173,000)
Buildings	(98,635,000)	(7,992,000)	3,000	(106,624,000)
Fixed and movable equipment	(135,767,000)	(13,634,000)	294,000	(149,107,000)
Total accumulated depreciation	<u>(240,268,000)</u>	<u>(21,933,000)</u>	<u>297,000</u>	<u>(261,904,000)</u>
Total capital assets being depreciated, net	<u>121,372,000</u>	<u>164,626,000</u>	<u>(539,000)</u>	<u>285,459,000</u>
Total capital assets, net	<u>\$ 315,564,000</u>	<u>\$ 230,127,000</u>	<u>\$ (179,793,000)</u>	<u>\$ 365,898,000</u>

At June 30, 2012, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$4.3 million.

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

	2013	2012
Change in accumulated depreciation		
Operating depreciation expense	\$ 28,142,000	\$ 22,958,000
Nonoperating depreciation expense	469,000	479,000
Disposal of fixed assets	<u>(9,257,000)</u>	<u>-</u>
Total increase in accumulated depreciation	<u>\$ 19,354,000</u>	<u>\$ 23,437,000</u>

9. Long-Term Debt

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

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

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

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

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

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

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

The District is also required to meet certain covenants, the most restrictive of which is related to debt service coverage. The District has agreed to maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. The District was in compliance with these covenants as of June 30, 2013 and 2012, maintaining debt service coverage ratios of 2.7 to 1.0 and 2.1 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

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

In 2013, the Hospital implemented a time and attendance system for its employees. The purchase of this system was financed under a 5-year installment agreement. Amounts related to this obligation have been capitalized and are included in current maturities of long-term debt and long-term debt, as appropriate.

The carrying amount of the District's long-term debt approximates fair value as of June 30, 2013 and 2012.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2013 and 2012

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

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

Washington Township Health Care District

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June 30, 2013 and 2012

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2012 is as follows:

	Beginning Balance, June 30, 2011	Additions	Amortization/ Other	Repayments	Ending Balance, June 30, 2012	Due Within One Year
Bonds payable						
2010 Series Revenue Bonds, principal and interest (at 4.0%) payable semiannually	\$ 60,725,000	\$ -	\$ -	\$ -	\$ 60,725,000	\$ 1,115,000
Less issuance discounts	(678,000)	-	(90,000)	-	(768,000)	-
Total 2010 Series Revenue Bonds Payable	<u>60,047,000</u>	<u>-</u>	<u>(90,000)</u>	<u>-</u>	<u>59,957,000</u>	<u>1,115,000</u>
2009 Series Revenue Bonds, principal and interest (at 4.5%) payable semiannually	55,000,000	-	-	(815,000)	54,185,000	855,000
Less issuance discounts	(903,000)	-	34,000	-	(869,000)	-
Total 2009 Series Revenue Bonds Payable	<u>54,097,000</u>	<u>-</u>	<u>34,000</u>	<u>(815,000)</u>	<u>53,316,000</u>	<u>855,000</u>
2009 General Obligation Bonds principal and interest (at 6.0%) payable semiannually	25,000,000	-	-	(3,360,000)	21,640,000	2,930,000
Plus issuance premiums	642,000	-	(317,000)	-	325,000	-
Total 2009 General Obligation Bonds Payable	<u>25,642,000</u>	<u>-</u>	<u>(317,000)</u>	<u>(3,360,000)</u>	<u>21,965,000</u>	<u>2,930,000</u>
2007 Series Revenue Bonds, principal and interest (at 4.125%) payable semiannually	77,330,000	-	-	(850,000)	76,480,000	885,000
Less issuance discounts	(1,411,000)	-	129,000	-	(1,282,000)	-
Total 2007 Series Revenue Bonds Payable	<u>75,919,000</u>	<u>-</u>	<u>129,000</u>	<u>(850,000)</u>	<u>75,198,000</u>	<u>885,000</u>
2006 General Obligation Bonds principal and interest (at 4.0%) payable semiannually	45,425,000	-	-	(1,795,000)	43,630,000	2,365,000
Plus issuance premiums	329,000	-	(60,000)	-	269,000	-
Total 2006 General Obligation Bonds Payable	<u>45,754,000</u>	<u>-</u>	<u>(60,000)</u>	<u>(1,795,000)</u>	<u>43,899,000</u>	<u>2,365,000</u>
1999 Series Revenue Bonds, principal and interest (at 5.0%) payable semiannually	39,055,000	-	-	(1,270,000)	37,785,000	1,335,000
Less issuance discounts	(277,000)	-	24,000	-	(253,000)	-
Total 1999 Series Revenue bonds payable	<u>38,778,000</u>	<u>-</u>	<u>24,000</u>	<u>(1,270,000)</u>	<u>37,532,000</u>	<u>1,335,000</u>
Loans Payable						
2012 WOSC Loan Payable principal and interest (at 3.5%) payable monthly	-	995,000	-	-	995,000	185,000
Total 2012 WOSC Loan Payable	<u>-</u>	<u>995,000</u>	<u>-</u>	<u>-</u>	<u>995,000</u>	<u>185,000</u>
Total long-term debt payable	<u>\$ 300,237,000</u>	<u>\$ 995,000</u>	<u>\$ (280,000)</u>	<u>\$ (8,090,000)</u>	<u>\$ 292,862,000</u>	<u>\$ 9,670,000</u>

Washington Township Health Care District
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June 30, 2013 and 2012

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

	Original Issue	Maturity Date	2013 Effective Interest Rate
Bond Issue			
2010 Series Revenue Bonds	\$ 60,725,000	7/1/2038	5.32%
2009 General Obligation Bonds	25,000,000	8/1/2039	4.93%
2009 Series Revenue Bonds	55,000,000	7/1/2039	6.23%
2007 Series Revenue Bonds	79,645,000	7/1/2037	5.28%
2006 General Obligation Bonds	60,000,000	8/1/2036	4.35%
1999 Series Revenue Bonds	49,725,000	7/1/2029	5.29%

The long-term debt amortization requirements as of June 30, 2013, excluding amortization of discounts and premiums on bonds payable, are as follows:

	Total Long-Term Debt	
	Principal	Interest
June 30		
2014	10,175,000	14,725,000
2015	10,170,000	14,208,000
2016	6,156,000	13,781,000
2017	6,437,000	13,478,000
2018	6,500,000	13,158,000
2019 - 2023	37,685,000	60,371,000
2024 - 2028	48,330,000	49,435,000
2029 - 2033	62,265,000	35,120,000
2034 - 2038	80,420,000	16,460,000
2039 - 2043	17,855,000	954,000
	<u>\$ 285,993,000</u>	<u>\$ 231,690,000</u>

Components of interest expense include the following:

	2013	2012
Total interest cost	\$ 15,060,000	\$ 15,380,000
Capitalized interest expense	<u>(6,265,000)</u>	<u>(11,666,000)</u>
Net interest expense	<u>\$ 8,795,000</u>	<u>\$ 3,714,000</u>
Capitalized investment income	\$ 4,000	\$ 14,000

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

10. Short-Term Debt

WOSC LLC entered into an agreement for a short-term \$1 million revolving line of credit in 2012. The line of credit was renewed in 2013. There have been no drawings under the line of credit since its inception.

11. Employee Benefit Plans

a. Defined Benefit Retirement Plan

The District maintains a defined benefit retirement 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 solely funded 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 District recognizes pension expense based upon GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The District's funding policy is to contribute based on actuarial estimates, subject to statutory limitations. The District's Board is the plan sponsor and has the sole authority to amend the plan. The Board expects to continue contributions to the plan, but it can suspend or reduce contributions at any time upon appropriate action by amendment to the plan. The pension plan does not issue a stand-alone financial report.

The District's annual pension cost, which is a measure of the periodic cost of the District's participation in the Defined Benefit Retirement Plan, and net pension obligation, which is the amount recognized by the District for pension expense that is greater than contributions to the Defined Benefit Retirement Plan were as follows:

	2013	2012
Annual required contribution	\$ 19,800,000	\$ 18,344,000
Interest on net asset	2,436,000	1,067,000
Adjustment to annual required contribution	<u>(2,624,000)</u>	<u>(1,149,000)</u>
Annual pension cost	19,612,000	18,262,000
Contributions made	<u>-</u>	<u>-</u>
Decrease to net pension asset	<u>19,612,000</u>	<u>18,262,000</u>
Net pension prepaid balance, beginning of period	<u>(32,485,000)</u>	<u>(14,223,000)</u>
Net pension (obligations)/prepaid balance, end of period	<u>\$ (52,097,000)</u>	<u>\$ (32,485,000)</u>

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation/(Asset)
2011	\$ 15,691,000	0.00 %	\$ 14,223,000
2012	18,262,000	0.00 %	32,485,000
2013	19,612,000	0.00 %	52,097,000

Components of pension activity for the years ended June 30 consist of the following:

	2013	2012
Pension expense	\$ 19,612,000	\$ 18,262,000
Employer contributions	-	-
Benefits paid	9,300,000	7,600,000

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

Fiscal Year	Actuarial Value of Assets (a)	Actuarial accrued Liability (AAL) – Projected Unit Credit (b)	Assets in Excess/ Shortfall) of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess/ (Shortfall) of AAL as a Percentage of Covered Payroll ((a – b)/c)
2011	\$ 103,767,000	\$ 204,612,000	\$ (100,845,000)	50.7%	\$ 131,700,377	(76.6)%
2012	99,038,000	226,291,000	(127,253,000)	43.8%	142,590,000	(89.2)%
2013	101,389,000	244,384,000	(142,995,000)	41.5%	150,047,000	(95.3)%

For the fiscal year ended June 30, 2013, the District Board set aside \$21,800,000 for contribution to the pension plan. This amount is in addition to the \$19,000,000 set aside for the fiscal year ended June 31, 2012 and approximately \$75 million in amounts set aside in fiscal years 2011 and prior. These contributions have not been made pending a change in trustee.

These additional funding amounts have not been reflected in the actuarial estimates of the pension plan's funding, liabilities or costs. If these amounts had been funded to the plan as of June 30 in the years that they were set aside, the market value and actuarial value of plan assets at June 30, 2013 and June 30, 2012 would be increased by \$114,366,000 and \$92,023,000, respectively. The funded ratio for the plan would have been 85.3% at June 30, 2013 and 79.2% at June 30, 2012.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

The following table summarizes the actuarial assumptions used to determine Defined Benefit Retirement Plan liabilities as of June 30, 2013:

Valuation date	July 1, 2013
Measurement date	January 1, 2013
Actuarial cost method	Projected unit credit
Amortizing method	Level Percentage of Projected Pay
Remaining amortization period	15 year open 3-year deferrals of gains and losses
Asset valuation method	
Actuarial assumptions	
Investment rate of return	7.50%
Projected salary increases	3.00%
Cost-of-living adjustments	3.00%

The District has a Deferred Compensation Plan available to employees. Generally, any employee is eligible and voluntarily enters into an agreement with the District to defer current wages at amounts limited by federal law. Effective January 1, 2010 the District matches participant contributions to a maximum of 1.5% of gross earnings. Under these agreements, the District purchases annuity contracts for various investments. All investment earnings, including market value appreciation and depreciation, are set aside in trusts for the benefit of the participants.

Contributions made by the District in 2013 and 2012 were as follows:

<u>Contribution Year</u>	<u>Amount</u>	<u>Employee Deductions being Matched</u>
2013	\$1,964,000	Calendar year 2012
2012	\$1,953,000	Calendar year 2011

b. Defined Benefit Post-Retirement Medical Plan

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

Other Post-Employment Benefits (OPEB) are funded entirely by the District on a pay-as-you-go basis. For the fiscal years ended June 30, 2013 and 2012, the District contributed \$0.9 million and \$0.8 million, respectively, to fund benefits paid in those years.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

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

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

<i>(in thousands)</i>	2013	2012
Annual required contribution	\$ 4,674,000	\$ 4,695,000
Interest on net OPEB obligation	1,422,000	1,300,000
Adjustment to annual required contribution	<u>(2,836,000)</u>	<u>(2,592,000)</u>
Annual OPEB cost	3,260,000	3,403,000
Contributions made	<u>907,000</u>	<u>826,000</u>
Increase in net OPEB Obligation	2,353,000	2,577,000
Net OPEB obligation		
Beginning of year	<u>29,939,000</u>	<u>27,362,000</u>
End of year	<u>\$ 32,292,000</u>	<u>\$ 29,939,000</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

<i>(in thousands)</i>	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended			
2011	\$ 2,940,000	24.18 %	\$ 27,362,000
2012	3,403,000	24.18 %	29,939,000
2013	3,260,000	24.18 %	32,292,000

As of June 30, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$37.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$37.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$145.2 million, and the ratio of the UAAL to the covered payroll was 26.0%.

In the June 30, 2013 and June 30, 2012 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions for both years include an initial annual healthcare cost trend rate of 7%, reduced by decrements to an ultimate rate of 5% by the year 2019. For each of the years, a discount rate of 4.75% was assumed in the calculation and the UAAL is being amortized as a level percentage over 15 years on an open basis.

Washington Township Health Care District

Notes to Financial Statements

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

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

12. Insurance Plans

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

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

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

Selected coverages are:

<i>(in thousands)</i>	Policy Limit	Self-insured Retention per Occurrence
Coverage		
All risk property	\$ 1,000,000,000	\$ 40,000
Hospital professional and general liability	40,000,000	25,000
Excess workers' compensation Statutory	Statutory	1,000,000
Directors and officers	10,000,000	25,000
Commercial crime	10,000,000	2,500
Automobile insurance	10,000,000	500

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

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

For the years ended June 30, 2013 and 2012, an actuarial estimate was prepared for the self-funded health, dental and vision IBNR claims liability.

13. Compensated Absences

District employees earn paid leave at varying rates depending on length of service and job classification. Employees can accumulate up to 640 hours of paid leave. All accumulated unused leave in excess of the maximum accrual amount is paid at the employee's anniversary date. Upon separation, unused vested leave balances are paid in full. As of June 30, 2013 and 2012, the liability for unpaid compensated absences was \$14,989,000 and \$14,856,000, respectively.

14. Commitments and Contingencies

a. Lease Commitments

DEVCO has operating leases for medical clinic facilities. Rental expense under these leases for fiscal years ended June 30, 2013 and 2012 was \$4,020,000 and \$3,819,000, respectively.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2013 and 2012

Future minimum rental commitments for years subsequent to June 30, 2013 are as follows:

(in thousands)

2014	\$ 3,690,000
2015	3,366,000
2016	2,463,000
2017	1,465,000
2018	1,037,000
Thereafter	<u>2,258,000</u>
	<u>\$ 14,279,000</u>

b. 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.

c. Regulatory Environment

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

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

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

Defined Benefit Retirement Plan

The following table summarizes the number of total plan participants:

	2013	2012
Participating employees	1,388	1,401
Deferred vested participants	617	605
Retirees and beneficiaries	666	578
Total plan participants	2,671	2,584

The following table summarizes the prepaid/ (liability) pension cost for the Defined Benefit Retirement Plan:

<i>(in thousands)</i>	Beginning of Year Prepaid Pension Cost (a)	Annual Pension Cost (b)	Actual Contribution (c)	Change in Prepaid Pension Cost (c-b)	End of Year Prepaid Pension Cost (a)+c-b))
Fiscal Year					
2011	\$ 1,468,000	\$ 15,691,000	-	\$ (15,691,000)	\$ (14,223,000)
2012	(14,223,000)	18,262,000	-	(18,262,000)	(32,485,000)
2013	(32,485,000)	19,612,000	-	(19,612,000)	(52,097,000)

Defined Benefit Post-Retirement Medical Plan

The following table summarizes the number of total plan participants:

	2013	2012
Active employees	1,347	1,356
Retirees receiving pre-65 \$440 reimbursement	12	5
Retirees receiving pre-65 \$440 COBRA benefits	44	28
Retirees receiving Part-B subsidy	305	279
Retirees eligible for Part-B subsidy only	30	15
Retirees receiving Part-D subsidy only	1	3
Total plan participants	1,739	1,686
Retirees also receiving Part-D subsidy benefit	83	59
Retirees also eligible for Part-D	35	24

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

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

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Projected Unit Credit (b)	Unfunded Actuarial Accrued Liability UAAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Assets in Excess/(Shortfall) AAL as a Percentage of Covered Payroll ((a – b)/c)
7/1/2011	\$ -	\$ 35,154,000	\$ (35,154,000)	0.0 %	\$ 141,967,000	(24.8)%
7/1/2012	-	34,731,000	(34,731,000)	0.0 %	149,927,000	(23.2)%
7/1/2013	-	37,779,000	(37,779,000)	0.0 %	145,216,000	(26.0)%

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

(in thousands)	Annual Required Contribution	Annual Contribution	Percentage Contributed
Fiscal Year			
7/1/2010 - 6/30/2011	\$ 4,126,000	\$ 711,000	17.23 %
7/1/2011 - 6/30/2012	4,695,000	823,000	17.53 %
7/1/2012 - 6/30/2013	4,674,000	907,000	19.41 %

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

(in thousands)	Beginning of Year Net Benefit Obligation (a)	Recommended Contribution (b)	Actual Contribution (c)	Annual OPEB Cost (d)	Increase in Net Benefit Obligation (d-c)	End of Year Net Benefit Obligation ((a)+(d-c))
Fiscal Year						
7/1/2010 -6/30/2011	\$ 25,133,000	\$ 4,126,000	\$ 711,000	\$ 2,940,000	\$ 2,229,000	\$ 27,362,000
7/1/2011 -6/30/2012	27,362,000	4,695,000	826,000	3,403,000	2,577,000	29,939,000
7/1/2012 -6/30/2013	29,939,000	4,674,000	907,000	3,260,000	2,353,000	32,292,000

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

The following table summarizes the actuarial assumptions used to determine the Defined Benefit Post-Retirement Medical Plan liabilities as of June 30, 2013:

Valuation date	July 1, 2013
Measurement date	June 30, 2013
Actuarial cost method	Projected unit credit
Amortizing method	Level dollar
Remaining amortization period	15 year open
Asset valuation method	Market Value
Actuarial assumptions	
Discount rate	4.75%
Current trend rate	7.00%
Ultimate trend	5.00%
Year of ultimate trend rate	2019