EL CAMINO HEALTHCARE DISTRICT FINANCIAL REPORT
June 30, 2018 and 2017

Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information

El Camino Healthcare District

June 30, 2018 and 2017

MOSSADAMS

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Management's Discussion and Analysis

El Camino Healthcare District (the "District") is comprised of six (6) entities: the District, El Camino Hospital (the "Hospital"), El Camino Hospital Foundation (the "Foundation"), CONCERN: Employee Assistance Program ("CONCERN"), El Camino Surgery Center ("ECSC"), and Silicon Valley Medical Development, LLC ("SVMD").

Effective May 6, 2013, ECSC sold certain medical equipment, furnishings, fixtures, inventories, and other tangible personal property in exchange for a seven and one half percent (7.5%) interest in El Camino Ambulatory Surgery Center, ("ECASC"). As of March 2015, ECSC's interest in ECASC has increased to 33.4%. ECSC has provided a working capital line of credit to ECASC in a principal amount of $750,000 represented by a Promissory Note and has a term of 39 months with an interest rate of 5% per annum. At June 30, 2018, 2017, and 2016, there were total draws of $0, $0, and $484,000 against the line of credit, respectively. The Hospital leases the space to ECASC and provides certain services, such as utilities and building/equipment maintenance. There was $658,000 of rental income recorded for the year ended June 30, 2018, $498,000 of rental income recorded for the year ended June 30, 2017, and $771,000 of rental income recorded for the year ended June 30, 2016 related to the lease. On August 29, 2016, ESCS paid off the line of credit of $483,000.

Silicon Valley Medical Development, LLC is organized as a California limited liability company and was formed in 2008. In fiscal year 2018, SVMD completed extensive tenant improvements (in November 2017) at a San Jose location and opened a Primary Care Clinic and in May 2018 opened a Specialty Care Clinic for Spine and Neurology services at the Hospital's Mountain View site. SVMD then opened its first Urgent Care Clinic in June 2018 at a location in Cupertino. Subsequent to year end it opened a second Urgent Care Clinic in Mountain View.

Overview of the Consolidated Financial Statements

This annual report consists of the consolidated financial statements and notes to those statements. These statements are organized to present the District as a whole, including all the entities it controls. Financial information for each separate entity is shown in the supplemental schedules on the last pages of the report. In accordance with the Governmental Accounting Standards Board ("GASB") Codification Section 2200, *Comprehensive Annual Financial Report*, the District presents comparative financial highlights for the fiscal years ended June 30, 2018, 2017, and 2016. This discussion and analysis should be read in conjunction with the consolidated financial statements in this report.

The consolidated statements of net position, the consolidated statements of revenues, expenses, and changes in net position, and consolidated statements of cash flows provide an indication of the District's financial health. The consolidated statements of net position include all the District's assets and liabilities, using the accrual basis of accounting. The consolidated statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The consolidated statements of cash flows report the cash provided by the operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements.

Consolidated Financial Highlights

Year Ended June 30, 2018

Exceeding a positive 2017 fiscal year, this year topped the prior year in producing the now greatest net income by creating an increase in net position of $215 million in the 2018 fiscal year, which is $37 million over the fiscal year of 2017, which had been the most successful year in the District's history. This $37 million increase was entirely earned out of operations with significant growth in operating revenues.

Year Ended June 30, 2017

In March 2017, El Camino Hospital issued Revenue Bonds in the amount of $292,435,000 to be used in its completion of the Master Facilities Plan at the Hospital's Mountain View campus. The primary projects that started in July 2016 are the Behavior Health Building replacement, expansion of the North Drive parking structure, and the construction of an integrated medical office building and associated parking structure.

Also in March 2017, El Camino Healthcare District refunded $99,035,000 of its $131,370,000 outstanding G.O. bonds that were issued in 2006 that assisted in building the Mountain View replacement hospital that was completed in November 2009. This refinancing resulted in a reduction of future interest payments with a present value of approximately $7,000,000 and along with increased assessed property values reduced District residents' G.O. tax rate from the original $12.90 per $100,000 of assessed valuation to $10.00 per $100,000 of current assessed valuation.

The 2017 fiscal year ended with an increase to net position of $177 million, of which $106 million was produced from operations and another $71 million in non-operating revenues, significantly driven by realized and unrealized gains from investments.

El Camino Healthcare District
Management's Discussion and Analysis
For the Years Ended June 30, 2018, 2017, and 2016

Summary of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position
As of June 30, 2018, 2017 and 2016

(In Thousands)

	2018	2017	2016
Assets:			
Current assets	$ 539,161	$ 494,644	$ 411,110
Board designated and restricted funds, net of current portion	715,395	568,776	491,544
Funds held by trustee, net of current portion	218,457	305,415	46,293
Capital assets, net	920,200	809,611	743,127
Other assets	96,160	70,095	59,399
Total assets	**2,489,373**	**2,248,541**	**1,751,473**
Deferred Outflows:			
Loss on defeasance of bond payable	13,562	14,163	14,764
Deferred outflow of resources	5,200	5,700	5,100
Deferred outflow - actuarial	2,414	9,097	9,950
Total deferred outflows	**21,176**	**28,960**	**29,814**
Total assets and deferred outflows	**$ 2,510,549**	**$ 2,277,501**	**$ 1,781,287**
Liabilities:			
Current liabilities	$ 145,514	$ 124,876	$ 112,214
Bonds payable, net of current portion	642,235	654,027	351,361
Other long-term liabilities	56,629	48,289	52,220
Total liabilities	**844,378**	**827,192**	**515,795**
Deferred Inflows:			
Deferred inflow of resources	3,638	3,521	3,596
Deferred inflow - actuarial	22,835	10,666	2,892
Total deferred inflows	**26,473**	**14,187**	**6,488**
Net position:			
Unrestricted and invested in capital assets, net	1,620,328	1,421,009	1,244,697
Restricted by donors - charity and other	15,652	11,651	11,599
Restricted - endowments	3,718	3,462	2,708
Total net position	**1,639,698**	**1,436,122**	**1,259,004**
Total liabilities, deferred inflow, and net position	**$ 2,510,549**	**$ 2,277,501**	**$ 1,781,287**
Operating cash equivalents & short-term investments	$ 370,877	$ 350,689	$ 285,907
Board designated, funds held by trustee, & restricted funds	954,815	887,324	534,267
Total available cash & investments	**$ 1,325,692**	**$ 1,238,013**	**$ 820,174**

Investments

The District maintains sufficient cash balances to pay daily operational expenses and all short term liabilities. In late fiscal year 2012, the Hospital (exclusive of the District) selected an Investment Consultant to assist the Hospital and its subsidiaries in managing its investments, and both the investment policies for Surplus Cash and Cash Balance Plan were updated and approved by the Hospital Board of Directors. The policies allow for greater diversification in the investment portfolios to balance the need for liquidity with a long-term investment focus in order to improve investment returns and the organization's financial strength. Beginning early in fiscal year 2013, an Investment Committee was formed to perform the following responsibilities, among others: monitor performance of investment managers, monitor allocations across investment styles and investment managers, review compliance with the policies, and make recommendations for revisions to the policies. The number of money managers expanded from two money managers in fiscal year 2014 for Surplus Cash to approximately thirty managers in fiscal year 2018.

Capital Assets

Continuing on from fiscal year 2017, in fiscal year 2018 the Hospital continued construction on the four (4) major projects at its Mountain View campus. These four projects total $432 million in expenditures. The Hospital issued $292,435,000 in tax-exempt revenue bonds in March 2017 to assist in covering the expenditures of these projects. The remaining monies to complete the projects will come from surplus cash. The projects are:

Replacement of the Behavior Health Services building, this project is projected to be completed in late spring of calendar year 2019 at a current total cost of $96.1 million, with approximately $42.9 million in costs incurred at the end fiscal year 2018.

Construction of an integrated medical office building ("IMOB") and associated parking structure to be completed in early summer of 2019 at a current total cost of $302.1 million, with approximately $113.0 million incurred at the end of fiscal year 2018.

An upgrade to the Central Utility Plant, this project is to be completed in the summer of 2018 at the current cost of $9 million, with approximately $7.0 million incurred at the end of fiscal year 2018.

Expansion of the North Drive Parking Garage was completed in August 2017 at its projected cost of $24.5M. The project included installing a one megawatt solar panel on the top floor of the parking structure. The power provided by the solar panels is providing all the required energy in the Women's Hospital on the Mountain View campus and has reduced our reliance on Pacific Gas & Electric. Savings in consumption are being realized, but the exact amount of savings has not been calculated as the fiscal year ended.

Expansion and renovation of the Women's Hospital at the Mountain View campus which will occur after the completion of the IMOB and the current physician tenants in the building on the second and third floors move into the completed IMOB in the summer of 2019. The Board approved initial funding in fiscal year 2017 for $6 million of which $3.2 million has been spent to for design work. Current total project is estimated at $138 million.

In November 2017 the tenant improvements for the new Primary Care Clinic on Winchester Road in San Jose was completed at a cost of $3.6 million and opened for business.

At the Los Gatos campus, the significant capital renovation and upgrade projects continued in its Imaging (including a new state-of-the-art CT scanner) and Surgery services and in the Central Sterile Processing unit that was financed by $42 million of the $160 million 2015A tax exempt bonds issue.

Also at the Los Gatos campus, the completion of major renovations to its Medical Office Building was completed in May 2018 at a cost of $4.9 million.

Each campus received a new da Vinci surgical robot in August 2017 at a total cost of $3.8 million.

Revenues and Expenses

The following table displays revenues and expenses for 2018, 2017, and 2016:

Revenues & Expenses
Years Ended June 30, 2018, 2017 and 2016
(In Thousands)

	2018	2017	2016
Operating revenues:			
Net patient service revenue net of bad debt of $21,407, $19,405 $18,966 in 2018, 2017, and 2016, respectively	$ 901,023	$ 832,573	$ 772,173
Other revenue	42,692	37,916	34,237
Total operating revenues	**$ 943,715**	**$ 870,489**	**$ 806,410**
Operating expenses:			
Salaries, wages & benefits	$ 471,132	$ 451,416	$ 439,877
Professional fees and purchased services	120,569	111,990	106,838
Supplies	128,072	121,888	118,096
Depreciation	49,957	48,179	49,051
Rent and utilities	15,783	16,265	15,669
Other	13,898	14,595	19,456
Total operating expenses	**$ 799,411**	**$ 764,333**	**$ 748,987**
Operating income	**$ 144,304**	**$ 106,156**	**$ 57,423**
Nonoperating revenue (expense) items:			
Bond interest expense, net	(9,011)	(6,697)	(10,891)
Intergovernmental transfer expense	(6,469)	(10,328)	(802)
Realized investment income	27,936	15,913	16,672
Unrealized investment gain (loss)	30,727	47,552	(16,886)
Property tax revenues	25,378	25,540	23,633
Restricted gifts, grants and other net of contributions to related parties	4,349	4,201	7,038
Unrealized gain (loss) on interest rate swap	1,151	3,429	(3,214)
Community benefit expense	(10,505)	(9,970)	(9,295)
Other, net	6,757	1,322	441
Total nonoperating revenues and expenses	**$ 70,313**	**$ 70,962**	**$ 6,696**
Increase in net position	**$ 214,617**	**$ 177,118**	**$ 64,119**
Total net position, beginning of year	**1,436,122**	**1,259,004**	**1,194,885**
CUMULATIVE EFFECT OF RESTATEMENT	**(11,041)**	**-**	**-**
Total net position, beginning of year, as restated	**1,425,081**	**1,259,004**	**1,194,885**
Total net position, end of year	**$ 1,639,698**	**$ 1,436,122**	**$ 1,259,004**

Fiscal Year 2018 Consolidated Financial Analysis

Net Patient Services Revenues

Net patient services revenue in fiscal year 2018 increased by $68.5 million, or 8.2% over fiscal year 2017. This increase was due to several factors which include a IGT payment of $8.4 million, along with FY 2018 participation being paid of $1.7 million; a $2.3 million of cost report settlement; volume increases in General Medicine (8.5%), Imaging (6.0%), General Surgery (5.2%) and Neurosciences (14.5%) also contributed. Another increase to this year's net patient revenue was due to the revision to the model that is done for calculating certain reserves, which provided a one-time reduction to estimated reserves in 2018.

Specialty	2018 Days	2017 Days	% Change
Medical/Surgical	61,869	61,187	1%
Maternity	14,200	14,413	-1%
Pediatrics	25	29	-14%
NICU	4,350	5,089	-15%
Psychiatry	6,823	6,558	4%
Normal newborn	10,467	10,498	0%
Total	**97,734**	**97,774**	**0.0%**

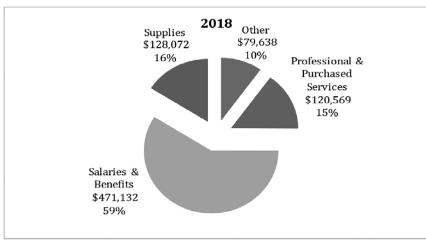
Specialty	2018 LOS	2017 LOS	% Change
Medical/Surgical	4.5	4.7	-4%
Maternity	3.0	3	0%
Pediatrics	1.7	1.6	6%
NICU	10.5	9.7	8%
Psychiatry	7.9	9.2	-14%
Normal newborn	2.5	2.4	4%
Average Length of Stay ("LOS")	**4.2**	**4.3**	**-2.3%**

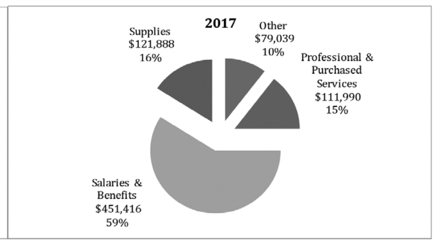
The overall case mix index, which is an indicator of patient acuity, was 1.54 in fiscal year 2018, and 1.48 in fiscal year 2017.

Other Revenue

Other Revenues increased by $4.8 million in fiscal year 2018 over the prior 2017 fiscal year. The primary increases were medical office building lease billings, IT services provided Pathways Home Care and Hospice, participation in in Public Redesign and Incentives in Medi-Cal ("PRIME"), and dietary services to Lucile Packard Children's Hospital patients that occupy a wing of the further floor of the Mountain View main hospital.

Operating Expenses





Salaries and Wages

It is to be noted that the District as a stand-alone entity has no employees. All employees are at the Hospital and its related corporations.

Total salaries and wages (including employee benefits) increased by $19.7 million in fiscal year 2018 over 2017, which is 59% of total operating expenses and consistent with fiscal year 2017. Salaries and wages (exclusive of employee benefits) increased by $21.1 million over fiscal year 2017. Registered Nurses ("RN"), including registries, payroll salaries increased by $10.7 million in fiscal year 2018 compared to 2017 primarily driven by patient volumes and including in this year the Hospital started a nursing new grad program to provide greater training in nursing operations at the Hospital at a cost of $1.2 million. A number of other clinical areas saw growth as in respiratory care, operating rooms, imaging, and interventional services. In total the FTE (Full Time Equivalent) grew by 88 FTE's over fiscal year 2017.

With an RN turnover rate of 2.2%, the Hospital continues to do better than the statewide rate of 2.5%, as published by the California Hospital Association ("CHA") at the end of the first quarter of the calendar year 2018.

Employees represented by the Professional Resources for Nurses ("PRN") are currently under contract. The Memorandum of Understanding ("MOU") was dated October 26, 2016 with an expiration date of June 30, 2019. Employees of PRN received a 4% contractual increase effective May 20, 2018.

Employees represented by SEIU United Healthcare Workers ("SEIU – UHW") are under a current contract that extends through June 2019. In fiscal year 2018 received a 3.0% contractual wage increase effective July 1, 2017.

The Hospital's Stationary Engineers – Local 39 members ratified a 5-year contract that began November 1, 2016 through October 31, 2021, receiving a 3% contractual increase on November 5, 2017.

Hospital-represented, non-management staff on a merit based compensation structure received annual merit increases averaging 2.7% in July 2017.

Management and Executive staff received market-based adjustments or merit increases averaging 2.7%; Management in August 2017.

Aggregate employee benefits, including accrued Paid Time Off ("PTO") and Extended Sick Leave decreased by $1.4 million.

Significant decreases/increases were as follows:

- For the employees of PRN as they ratified their contract in fiscal year 2017, all members (1,218) were provided a Ratification Bonus that totaled $2.5 million that was paid out in December 2016. This was a one-time event and did not occur in the current fiscal year
- Pension expense decreased by $4.2 million, primarily by increased investment returns on the Plan's investment in the past year.
- Self-funded worker compensation expenses decreased by $1.3 million primary in third party payments for employee injuries.
- Paid Time Off ("PTO") accrued expense increased by $3.5 million over the 2017 fiscal year.
- Employer FICA (Social Security and Medicare) taxes increased by $1.6 million in the current fiscal year.

Professional and Purchased Services

Total professional and purchased services increased by $8.6 million over the prior fiscal year.

The significant increases were as follows:

- Continued on-going repairs in maintaining buildings and grounds to look and perform as they did when they came on line at the campuses of Mountain View and Los Gatos are these days a significant expense, thus in current fiscal year $4.9 million was expended over fiscal year 2017. Maintaining the many state-of-the-art medical equipment added $900 thousand in the 2018 fiscal year over the prior year.
- Maintenance and upgrades to various software applications saw a $1.4 million increase over the prior year.
- Physician services of participating on required on-call panels at both campuses and medical directorship fees increased by $1.7 million in the current fiscal year.

Supplies

Total supplies increased by $6.2 million in fiscal year 2018 over 2017. Pharmaceuticals increased by $3.0 million over the 2017 year. At the Cancer Infusion Center, the service saw increased patient volumes, along with a higher acuity of the patients. The pharmaceutical industry saw an overall inflation rate of 4.1% for the year. Spine surgery had increased utilization causing a $1.7 million in medical supplies. Other areas that saw increases were for certain heart and vascular devices, prosthesis and orthopedics devices, respiratory materials, and oxygen and other medical gases had significant increases.

Depreciation

Depreciation expense this fiscal year increased by $1.8 million over fiscal year 2017. Primarily the increase was for buildings and structures, in particular the new North Drive parking structure at the Mountain View campus coming on line and various major upgrades to the Los Gatos facilities, including the HVAC system and medical office buildings.

Rent and Utilities

Rent and utilities this fiscal year was decreased by an insignificant $482,000 over fiscal year 2017.

Other Expense

Other expense decreased in current fiscal year by $697,000 over the prior year, principally for annual dues and subscription fees and offsite seminars and associated travel expense.

Non-operating Revenue and Expenses

Interest Expense

The increase of $2.3 million in fiscal year 2018 over the prior year is due a full year of the May 2017 $292 million issue being place. Though a majority of its interest is being capitalize as the major projects remain being constructed, the Parking Structure addition at the Mountain View campus was completed in August 2017 as was some significant renovation projects at the Los Gatos campus that were funded by the 2015A bonds.

Change in Net Unrealized Gains and Losses on Investments

For fiscal year 2018, the Hospital had approximately 30 money managers with different investment objectives for the Hospital's surplus cash investments. Total net unrealized gains/losses are reported in the consolidated financial statements during this fiscal year.

The Hospital experienced a change in net unrealized gains and losses on investments of $30.7 million during fiscal year 2018 and the change in net unrealized gains and losses for fiscal year 2018 was a Year over Year ("YOY") decrease of $16.8 million. The change in net unrealized gains and losses in 2018 were a result of strong investment results that were widespread across investment portfolios with the exception of fixed income portfolios. Externally held funds (excluding hedge funds) and mutual fund investments generated $24.4 million in change in unrealized gains and losses. Within mutual funds, all equity funds generated significant unrealized gains throughout fiscal year 2018. These results were consistent with strong equity market returns within domestic and international equity markets as the S&P 500 Index returned +14.4% and the MSCI All Country World Index ex USA (net) returned +7.3% during fiscal year 2018. Separate account equities also experienced positive changes in net unrealized gains and losses of $2.1 million primarily driven by results from the portfolio's U.S. small-cap growth equity and U.S. large-cap value equity manager. Hedge fund investments added $9.8 million to the change in unrealized gains and losses with strong results across all four underlying strategies; equity, credit, relative value, and macro. Fixed income investments partially offset the impact of other asset classes as they experienced a negative change in net unrealized gains and losses of $6.1 million during fiscal year 2018. An increase in interest rates led to unrealized losses for fixed income investments during fiscal year 2018.

El Camino Healthcare District
Management's Discussion and Analysis
For the Years Ended June 30, 2018, 2017, and 2016

The YOY decrease in net unrealized gains and losses was primarily due to a $17.2 million decrease in externally held funds (excluding hedge funds) and mutual fund investments and a $4.8 million decrease due to fixed income investments. This was partially offset by a $4.6 million increase due to hedge fund investments. Within mutual fund investments, despite strong absolute gains in fiscal year 2018, equity funds were not able to keep pace with the level of gains experienced in fiscal year 2017, primarily within international equity holdings. The MSCI All Country World Index ex USA (net) returned +7.3% during fiscal year 2018, whereas the Index gained +20.5% in fiscal year 2017. Conversely, hedge fund investments returned +8.7% during fiscal year 2018, whereas they returned +5.6% in fiscal year 2017.

Economic Factors and Next Year's Budget

The Board approved the fiscal year 2019 budget at their June 2018 meeting. The District is budgeting a combined increase in net position of $125.6 million. Volumes are budgeted to grow by 2.5%. Reimbursement rates are projected to increase by 3%, as well as expenses to also grow by 3% over the 2018 fiscal year. The organization is focused on being a value-based healthcare provider offering top decile, acute care quality at mid-level pricing, moving towards continuum partnerships that integrate physician networks, care coordination, and delivery strategies, while maintaining our "triple aim" of quality, service, and affordability.

Fiscal Year 2017 Consolidated Financial Analysis

Net Patient Services Revenues

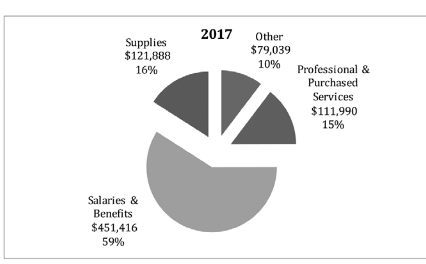
Net patient services revenue in fiscal year 2017 increased by $60.4 million, or 7.8% over fiscal year 2016. This increase was due to several factors which include a delayed IGT payment of $6.5 million from FY 2016 received in FY 2017, along with the FY 2017 participation being paid in June 2017 in the amount of $6.5 million; the participation in Public Redesign and Incentives in Medi-Cal ("PRIME") program in which an additional $4.0 million was received in FY 2017 over FY 2016; a $1.6 million of cost report settlement; volume increase in a number of product lines including heart and vascular (10.14%), Spine surgery (13.20%), outpatient surgery (9.20%), outpatient infusion (29.40%), and urology (11.20%).

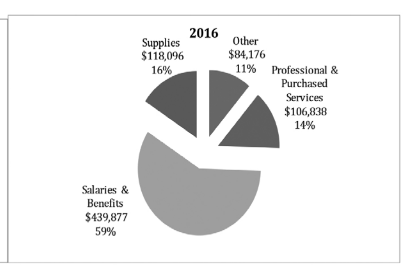
Specialty	2017 Days	2016 Days	% Change
Medical/Surgical	58,467	61,046	-4.2%
Maternity	11,406	14,465	-21.1%
Pediatrics	29	4	625.0%
NICU	5,089	5,199	-2.1%
Psychiatry	6,558	7,990	-17.9%
Rehab	5,727	-	0.0%
Normal newborn	10,498	10,717	-2.0%
Total	**97,774**	**99,421**	**-1.7%**

Specialty	2017 LOS	2016 LOS	% Change
Medical/Surgical	4.6	4.9	-6.1%
Maternity	2.4	3.0	-20.0%
Pediatrics	1.6	1.9	-15.8%
NICU	9.7	9.8	-1.0%
Psychiatry	9.2	10.0	-8.0%
Normal newborn	2.4	2.5	-4.0%
Average LOS	**4.2**	**4.3**	**-2.3%**

The overall case mix index, which is an indicator of patient acuity, was 1.48 in fiscal year 2017 and fiscal year 2016.

Operating Expenses





Salaries and Wages

It is to be noted that the District as a stand-alone entity has no employees. All employees are at the Hospital and its related corporations.

Total salaries and wages (including employee benefits) increased by $11.5 million in fiscal year 2017 over 2016, which is 59% of total operating expenses and consistent with fiscal year 2016. Salaries and wages (exclusive of employee benefits) increased by $4.5 million over fiscal year 2016. Registered Nurse ("RN") payroll salaries increased by $3.5 million in fiscal year 2017 compared to 2016. A significant decrease in labor costs in fiscal year 2017 was for outside labor in the amount of $4.7 million, as in fiscal year 2016 the implementation of the Hospital's new Electronic Health Record ("EHR") system (Epic) was being completed [live in November 2015] and significant outside labor was brought in to allow certain clinical personnel to perform final testing and for a large segment of the employees to complete training classes on the use of the new system.

The RN turnover rate at the end of the first quarter of calendar year 2017 was 2.7% for the Hospital compared to Northern California rate of 1.9% and a statewide rate of 2.4%. The greatest reason for terminations of the Hospital's RN staff during the current fiscal year was for relocation which may be driven by the ever increasing prices in housing/rental market in and around Silicon Valley in which the Hospital resides.

In fiscal year 2017, the Hospital reduced Full Time Equivalents ("FTE") by 33 over 2016. This reduction was principally due to that in fiscal year 2016 with the implementation of Epic that went live November 2015 significant additional labor was needed to complete the testing of the system and training of all clinical staff and others in the use of Epic.

Employees represented by the Professional Resources for Nurses ("PRN") are currently under contract. The Memorandum of Understanding ("MOU") was dated October 26, 2016 with an expiration date of June 30, 2019. Employees of PRN received a 3% contractual increase effective November 20, 2016 and another 3% increase effective April 9, 2017.

Employees represented by SEIU United Healthcare Workers ("SEIU – UHW") are under a current contract that extends through June 2019. In fiscal year 2017 they received 3.0% increases in starting on September 25, 2016.

The Hospital's Stationary Engineers – Local 39 members ratified a 5-year contract that began November 1, 2016 through October 31, 2021, receiving a 3% contractual increase on November 1, 2016.

Hospital-represented, non-management staff on a merit based compensation structure received annual merit increases averaging 2.7% in July 2016.

Management and Executive staff received market-based adjustments or merit increases averaging just under 3%; Management in August 2016 and Executives in October 2016.

Aggregate employee benefits, including accrued Paid Time Off ("PTO") and Extended Sick Leave increased by $6.7 million.

Significant increases were as follows:

For the employees of PRN as they ratified their contract in October 2016, all members (1,218) were provided a Ratification Bonus that totaled $2.5 million that was paid out in December 2016.

Healthcare expense (medical, dental, and vision) increased by $2.2 million over 2016.

Performance bonuses to management and rank and file employees based on the outstanding financial outcome for the 2017 fiscal year were accrued by $700 thousand over fiscal year 2016.

FICA/Social Security employer expense and severance payments combined to become a $1 million increase over fiscal year 2016.

Professional and Purchased Services

Total professional and purchased services increased by $5.2 million over the prior fiscal year.

Significant increases/decreases were as follows:

Bond issuance costs associated with issuing the 2017 Revenue Bonds in the amount of $292,435,000 caused the most significant single increase over fiscal year 2016 by $2.7 million.

Professional consulting fees for the retention of the interim CEO of the Hospital for ten months during fiscal year 2017, recruitment fees to locate the permanent CEO (begins in late August 2017) and other senior critical leadership positions during fiscal year, along with the consulting expense to fill these open positions in the interim as they became permanently hired, and outside legal expenses lead to an increase of $3.3 million in fiscal year 2017 over 2016 in the aggregate.

Within the CONCERN employee assistance program, the expense for outside provider counselors to provide services to the covered employees of CONCERN's client base increased by $1.4 million in fiscal year 2017 over the prior 2016 fiscal year. This increase was due in part by increased clients and employee head count being covered, but also increased utilization of those counseling services.

A significant decrease of $2.2 million was for information system software maintenance as in fiscal year 2016 before migrating to Epic the Hospital was maintaining its then current EHR system and a number of supporting sub-systems. As Epic went live and became stabilized maintaining a number of the legacy systems were sunset towards to end of fiscal year 2016, thus reducing the annual software maintenance coming into fiscal year 2017.

Supplies

Total supplies increased by $3.8 million in fiscal year 2017 over 2016. Pharmaceuticals increased by $3.0 million over the 2016 year. With the expansion of the Cancer Infusion Center that opened the end of the 2016 fiscal year, the service saw increased patient volumes, along with a higher acuity of the patients. The pharmaceutical industry saw an overall inflation rate of 4.1% for the year. Medical supplies saw increases in heart and vascular devices, offset by a decrease in general medical surgical supplies.

Depreciation

Depreciation expense this fiscal year decreased by $872,000 over fiscal year 2016. Primarily the decrease was due to that in fiscal year 2016 a portion of the Mountain View old tower (the "North Addition") was on accelerated depreciation to end June 2016 as it was demolished the beginning of fiscal year 2017 to make way for the construction of the Integrated Medical Office Building. In addition, a number of significant pieces of capital equipment became fully depreciated.

Rent and Utilities

Rent and utilities this fiscal year was increased by an insignificant $596,000 over fiscal year 2016.

El Camino Healthcare District
Management's Discussion and Analysis
For the Years Ended June 30, 2018, 2017, and 2016

Other Expense

There was a decrease of $4.9 million in fiscal year 2017 over 2016. Primarily this was due to going "live" with new EHR Epic system in the prior fiscal year, in which all of the clinical staff and certain administrative support departments had to be trained on the new system in November 2015. This training expense was in excess of $7.8 million that was not repeated in fiscal year 2017.

<u>Non-operating Revenue and Expenses</u>

Interest Expense

Interest expense is primarily related to the 2015A Revenue Bonds ("2015A bonds") which refunded its 2007 Series Bonds ($120.1 million) and financed certain capital expenditures ($40.3 million) at the Hospital's Los Gatos campus. The advance refunding of the 2007 Series Bonds caused a loss on defeasance of $15.3 million which is being amortized as additional interest expense of the life of the 2015A Bonds, which adds an additional $600 thousand in interest expense per year. Secondly, with 2017 Revenue Bond issue in late March 2017 has added to operating interest, but a vast majority is being capitalized as part of the construction costs of the current four (4) major projects at the Mountain View campus.

Change in Net Unrealized Gains and Losses on Investments

For fiscal year 2017, the Hospital had 28 money managers with different investment objectives for the Hospital's surplus cash investments. Total net unrealized gains/losses are reported in the consolidated financial statements during this fiscal year.

The Hospital experienced net unrealized gains on investments of $47.5 million during fiscal year 2017 and the change in net unrealized gains and losses for fiscal year 2017 was a YOY increase of $64.5 million. The net unrealized gains in 2017 were a result of strong investment results that were widespread across investment portfolios with the exception of fixed income portfolios. Externally held funds (excluding hedge funds) and mutual fund investments generated $41.5 million in unrealized gains. Within mutual funds, all equity funds generated significant unrealized gains throughout fiscal year 2017. These results were consistent with strong equity market returns within domestic and international equity markets as the S&P 500 Index returned +17.9% and the MSCI All Country World Index ex USA (net) returned +20.5% during fiscal year 2017. Separate account equities also experienced net unrealized gains of $2.1 million primarily driven by results from the portfolio's U.S. large-cap value equity manager. Hedge fund investments added $5.2 million to unrealized gains with particularly strong results from credit and equity oriented strategies. Fixed income investments partially offset the impact of other asset classes as they experienced net unrealized losses of $1.3 million during fiscal year 2017. An increase in interest rates led to unrealized losses for fixed income investments during fiscal year 2017.

The YOY increase in net unrealized gains and losses was primarily due to a $48.8 million increase in externally held funds (excluding hedge funds) and mutual fund investments, a $13.9 million increase due to hedge fund investments, and a $6.6 million increase due to separate account equities. Within mutual fund investments all equity funds contributed to YOY gains; however, the portfolio experienced particularly strong YOY gains from internationally equity funds (+17.6% during fiscal year 2017 versus -6.0% in fiscal year 2016) and the U.S. large-cap growth equity fund (+24.5% in fiscal year 2017 versus -10.6% in fiscal year 2016). Also, hedge fund investments returned +5.6% during fiscal year 2017, whereas they returned -7.2% in fiscal year 2016.

Report of Independent Auditors

To the Board of Directors
El Camino Healthcare District

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of El Camino Healthcare District (the "District"), which comprise the consolidated statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the District as of June 30, 2018 and 2017, and the consolidated results of operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, for the fiscal year ended June 30, 2018, the District adopted new Government Accounting Standard Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As required by the standard, net position was restated as of July 1, 2017, and therefore the required disclosures are for fiscal year ended June 30, 2018, only. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 1 through 15, and the accompanying supplemental pension and post-retirement benefit information on pages 58 and 59, are not required parts of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers them to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational economic, or historical context. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the District's consolidated financial statements. The accompanying consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position, on pages 55 through 57, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of the District's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the District's consolidated financial statements. The accompanying supplemental schedule of community benefit on page 60 is presented for purpose of additional analysis and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of the District's management. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

San Francisco, California
October 17, 2018

Consolidated Financial Statements

El Camino Healthcare District
Consolidated Statements of Net Position
June 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS AND DEFERRED OUTFLOWS		
Current assets		
Cash and cash equivalents	$ 126,821	$ 131,563
Short-term investments	244,056	219,126
Current portion of board designated and funds held by trustee	20,963	13,133
Patient accounts receivable, net of allowances for doubtful accounts of $41,009 and $32,537 in 2018 and 2017, respectively	124,914	110,005
Prepaid expenses and other current assets	22,407	20,817
Total current assets	539,161	494,644
Non-current cash and investments		
Board-designated funds	714,995	568,376
Restricted funds	400	400
Funds held by trustee	218,457	305,415
	933,852	874,191
Capital assets		
Nondepreciable	305,797	221,478
Depreciable, net	614,403	588,133
Total capital assets	920,200	809,611
Pledges receivable, net of current portion	4,170	2,630
Prepaid pension asset	57,084	32,682
Investments in healthcare affiliates	31,268	31,262
Beneficial interest in charitable remainder unitrusts	3,638	3,521
Total assets	2,489,373	2,248,541
Deferred outflows of resources		
Loss on defeasance of bond payable	13,562	14,163
Deferred outflows of resources	5,200	5,700
Deferred outflows - actuarial	2,414	9,097
Total deferred outflows of resources	21,176	28,960
Total assets and deferred outflows of resources	$ 2,510,549	$ 2,277,501

 See accompanying notes.

El Camino Healthcare District
Consolidated Statements of Net Position (continued)
June 30, 2018 and 2017
(In Thousands)

	2018	2017
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	$ 51,036	$ 38,986
Salaries, wages, and related liabilities	54,006	51,688
Other current liabilities	23,244	16,459
Estimated third-party payor settlements	10,068	10,438
Current portion of bonds payable	7,160	7,305
Total current liabilities	145,514	124,876
Bonds payable, net of current portion	642,235	654,027
Other long-term obligations	9,454	11,364
Workers' compensation, net of current portion	17,963	17,707
Post-retirement medical benefits, net of current portion	29,212	19,218
Total liabilities	844,378	827,192
Deferred inflow of resources		
Deferred inflow of resources	3,638	3,521
Deferred inflow of resources - actuarial	22,835	10,666
Total deferred inflow of resources	26,473	14,187
Net position		
Invested in capital assets, net of related debt	510,225	466,827
Restricted - expendable	15,652	11,651
Restricted - nonexpendable	3,718	3,462
Unrestricted	1,110,103	954,182
Total net position	1,639,698	1,436,122
Total liabilities, deferred inflow of resources, and net position	$ 2,510,549	$ 2,277,501

See accompanying notes.

El Camino Healthcare District
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $21,407 and $19,405 in 2018 and 2017, respectively)	$ 901,023	$ 832,573
Other revenue	42,692	37,916
Total operating revenues	943,715	870,489
OPERATING EXPENSES		
Salaries, wages, and benefits	471,132	451,416
Professional fees and purchased services	120,569	111,990
Supplies	128,072	121,888
Depreciation	49,957	48,179
Rent and utilities	15,783	16,265
Other	13,898	14,595
Total operating expenses	799,411	764,333
Income from operations	144,304	106,156
NONOPERATING REVENUES (EXPENSES)		
Investment income, net	58,663	63,465
Property tax revenue		
Designated to support community benefit programs and operating expenses	8,281	7,902
Designated to support capital expenditures	7,831	6,959
Levied for debt service	9,266	10,679
Bond interest expense, net	(9,011)	(6,697)
Intergovernmental transfer expense	(6,469)	(10,328)
Restricted gifts, grants and bequests, and other, net of contributions to related parties	4,349	4,201
Unrealized gain on interest rate swap	1,151	3,429
Community benefit expense	(10,505)	(9,970)
Other, net	6,757	1,322
Total nonoperating revenues	70,313	70,962
Increase in net position	214,617	177,118
TOTAL NET POSITION, beginning of year	1,436,122	1,259,004
CUMULATIVE EFFECT OF RESTATEMENT	(11,041)	-
TOTAL NET POSITION, beginning of year, as restated	1,425,081	1,259,004
TOTAL NET POSITION, end of year	$ 1,639,698	$ 1,436,122

El Camino Healthcare District
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 857,868	$ 832,934
Other cash receipts	42,692	37,917
Cash payments to employees	(468,814)	(442,947)
Cash payments to suppliers	(253,530)	(269,942)
Net cash provided by operating activities	178,216	157,962
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	16,112	14,861
Restricted contributions and investment income	4,349	4,254
Transfers to restricted funds and other	-	(350)
Net cash provided by noncapital financing activities	20,461	18,765
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property, plant, and equipment	(157,934)	(112,510)
Payments on bonds payable	(7,305)	(3,635)
Proceeds from bond issuance	-	413,458
Interest paid on General Obligation bonds payable	(3,183)	(4,387)
Refunding of bonds payable	-	(103,945)
Tax revenue related to General Obligation bonds payable	9,266	10,679
Net cash (used in) provided by capital and related financing activities	(159,156)	199,660
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,304,891)	(766,314)
Sales of investments	1,125,512	661,111
Investment income, net	58,663	64,727
Community benefit and other investing activities	(10,505)	(8,648)
Change in funds held by trustee, net	86,958	(259,122)
Net cash used in investing activities	(44,263)	(308,246)
Net (decrease) increase in cash and cash equivalents	(4,742)	68,141
CASH AND CASH EQUIVALENTS at beginning of year	131,563	63,422
CASH AND CASH EQUIVALENTS at end of year	$ 126,821	$ 131,563
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	$ 144,304	$ 106,156
Adjustments to reconcile income from operations to net cash from operating activities		
Loss on disposal of property, plant and equipment	2,838	1,262
Amortization of bond premium and bond issuance costs	(4,632)	(2,027)
Depreciation	49,957	48,179
Provision for bad debts	21,407	19,405
Changes in assets and liabilities		
Patient accounts receivable, net	(36,316)	(8,716)
Prepaid expenses and other current assets	(26,437)	(9,531)
Current liabilities	10,163	6,628
Other long-term obligations	(873)	(1,464)
Deferred inflow/outflow of resources - actuarial	18,852	(2,892)
Post-retirement medical benefits	(1,047)	962
Net cash provided by operating activities	$ 178,216	$ 157,962
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Noncash purchase of property, plant, and equipment	$ 5,450	$ 3,415
Change in fair value of beneficial interest in charitable remainder unitrusts, and deferred inflow of resources, net	$ 117	$ 75

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The District includes the following component units, which are included as blended component units of the District's consolidated financial statements: the Hospital, El Camino Hospital Foundation (the "Foundation"), CONCERN: Employee Assistance Program ("CONCERN"), El Camino Surgery Center, LLC ("ECSC"), and Silicon Valley Medical Development, LLC ("SVMD").

The District is organized as a political subdivision of the State of California and was created for the purpose of operating an acute care hospital and providing management services to certain related corporations. The District is the sole member of the Hospital, and the Hospital is the sole corporate member of the Foundation and CONCERN. As sole member, the District (with respect to the Hospital) and the Hospital (with respect to the Foundation and CONCERN) have certain powers, such as the appointment and removal of the boards of directors and approval of changes to the articles of incorporation and bylaws. As of June 30, 2018 and 2017, the Hospital owns 100% of ECSC.

SVMD was formed in September 2008 as a Limited Liability Corporation ("LLC"), a wholly owned subsidiary of the Hospital focused on the expansion of the clinical enterprise outside of the Hospital through various business ventures and physician alignment initiatives that improve access for the Hospital's current patients and new, underserved members of the community, extend healthcare into people's homes through the applications of electronic connectivity and assist independent physicians in clinical integration with the Hospital, among other initiatives. In fiscal year 2018, SVMD completed extensive tenant improvements at a San Jose location and opened a Primary Care Clinic and, in May 2018, opened a Specialty Care Clinic for Spine and Neurology services at the Hospital's Mountain View site. SVMD then opened its first Urgent Care Clinic in June at a location in Cupertino. Subsequent to year end it opened a second Urgent Care Clinic in Mountain View.

All significant inter-entity accounts and transactions have been eliminated in the consolidated financial statements.

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

Accounting standards – Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989 and the California Code of Regulations, Title 2, Section 1131, State Controller's *Minimum Audit Requirements* for California Special Districts and the State Controller's Office prescribed reporting guidelines.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Use of estimates – The preparation of the consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates include contractual allowances related to net patient service revenue, provision for uncollectible accounts, fair market values of investments, uninsured losses for professional liability, minimum pension liability, workers' compensation liability, post-retirement medical benefits liability, valuation of gift annuities and beneficial interest in charitable remainder unitrusts, and useful lives of capital assets. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include deposits with financial institutions, and investments in highly liquid debt instruments with an original maturity of three months or less. In addition, in fiscal years 2018 and 2017, cash and cash equivalents include repurchase agreements, which consist of highly liquid obligations of U.S. governmental agencies. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

Investments – Investments consist primarily of highly liquid debt instruments and other short-term interest-bearing certificates of deposit, U.S. Treasury bills, U.S. government obligations, hedge funds, hedge fund of funds, and corporate debt, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Board-designated and restricted funds include assets set aside by the Board of Directors for future capital improvements and other operational reserves, over which the Board of Directors retains control and may at its discretion use for other purposes; assets set aside for qualified capital outlay projects in compliance with state law; and assets restricted by donors or grantors.

Investment income, realized gains and losses, and unrealized gains and losses on investments are reflected as nonoperating revenue or expense.

Funds held by trustee – According to the terms of both indenture agreements (General Obligation and Revenue Bonds), these amounts are held by the bond trustee and paying agent and are maintained and managed by an investment manager or the trustee. These assets are available for the settlement of future current bond obligations and capital expenditures.

Capital assets – Capital asset acquisitions are recorded at cost. Donated property is recorded at its fair market value on the date of donation. All purchases over $2,500 are capitalized. Equipment under capital lease is amortized on the straight-line basis over the shorter of the lease term or the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	16 years
Buildings and fixtures	25 – 47 years
Equipment	3 – 16 years

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Investments in healthcare affiliates – The Hospital holds an interest in Pathways Home Health & Hospice ("Pathways"), and five Satellite Dialysis Centers, which are reported using the equity method of accounting. ECSC holds an interest in El Camino Ambulatory Surgery Center ("ECASC"), which is reported using the cost method of accounting.

Affiliate	Percent interest
Pathways	50%
Satellite Dialysis of Mountain View, LLC	30%

Deferred outflows and inflows – The District records deferred outflows or inflows of resources in its consolidated financial statements for consumption or acquisition of its consolidated net position that is applicable to a future reporting period. These financial statement elements are distinct from assets and liabilities.

Deferred outflows consist of unamortized loss on refunding of debt (Note 10), deferred outflows of pension contribution, and actuarially determined deferred outflows of resources (Note 7).

Deferred inflows consist of actuarially determined deferred inflows of resources as it relates to pension (Note 7), as well as deferred inflow resulting from transactions in charitable remainder unitrusts (Note 12).

Risk management – The Hospital 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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Self-insurance plans – The Hospital maintains professional liability insurance on a claims-made basis, with liability limits of $40,000,000 in aggregate, which is subject to a $50,000 deductible. Additionally, the Hospital is self-insured for workers' compensation benefits. The Hospital purchases a Workers' Compensation Excess Policy that insures claims greater than $1,000,000 with a limit of $25,000,000 and a $1,000,000 deductible. Actuarial estimates of uninsured losses for professional liability and workers' compensation have been accrued as other current liabilities and workers' compensation, net of current portion, respectively, in the accompanying consolidated financial statements.

The following is a summary of changes in workers' compensation liabilities for the years ended June 30 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2018	$ 20,007	$ 2,810	$ 2,554	$ 20,263	$ 2,300

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2017	$ 22,309	$ 4,055	$ 6,357	$ 20,007	$ 2,300

Compensated absences – Vested or accumulated vacation and sick leave are recorded as an expense and liability of the Hospital as the benefits accrue to employees. For most employees, the maximum accumulated vacation is 400 hours. Sick leave is accumulated indefinitely at a maximum of 40 hours for a full-time employee per year, and is not vested with the employee upon termination.

The following is a summary of changes in compensated absences transactions for the years ended June 30, (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2018	$ 23,685	$ 47,485	$ 46,387	$ 24,783	$ 24,783

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2017	$ 23,232	$ 44,003	$ 43,550	$ 23,685	$ 23,685

Interest rate swap agreements – During the fiscal year ended June 30, 2007, the Hospital entered into derivative instruments in the form of three swap agreements to hedge variable interest rate exposure. During the fiscal year ended June 30, 2008, the underlying variable rate debt was refunded for fixed rate debt, leaving the Hospital with speculative derivative instruments that largely offset the variable rate debt issued in 2009. Two of these swaps were terminated in the fiscal year ended June 30, 2010. Refer to Note 10 for a full description of the interest rate swap agreements.

Net position – Net position of the District is classified as invested in capital assets, restricted-expendable, restricted-nonexpendable, and unrestricted net position.

Invested in capital assets, net of related debt – Invested in capital assets of $510,225,000 and $466,827,000 at June 30, 2018 and 2017, respectively, represent investments in all capital assets (building and building improvements, furniture and fixtures, and information and technology equipment), net of depreciation less any debt issued to finance those capital assets.

Restricted-expendable – The restricted expendable net position is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation and includes assets in self-insurance trust funds, revenue bond reserve fund assets, and net position restricted to use by donors.

Restricted-nonexpendable – The restricted nonexpendable net position is equal to the principal portion of permanent endowments.

Unrestricted net position – Unrestricted net position consists of net position that does not meet the definition of invested in capital assets, net of related debt, or restricted.

Statements of revenues, expenses, and changes in net position – For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provisions of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses. These peripheral activities include investment income, property tax revenue, gifts, grants and bequests, change in net unrealized gains and losses on short-term investments, unrealized losses or gains on interest rate swap, and nonexchange contributions received from the Foundation's fundraising activities and are reported as nonoperating. Investments in Pathways Home Health & Hospice and Satellite Dialysis of Mountain View, LLC, are accounted for under the equity method. The Hospital's share of the operating income of these entities is included as other, net in the consolidated financial statements.

Net patient service revenue and patient accounts receivable – 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. The distribution of net patient accounts receivable by payor at June 30, 2018 and 2017, is as follows:

	June 30, 2018	June 30, 2017
Medicare	16%	13%
Medi-Cal	3%	4%
Commercial and other	80%	82%
Self pay	1%	1%
	100%	100%

Uncollectible accounts – The Hospital provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible.

Charity care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of estimated costs for services and supplies furnished under the Hospital's charity care policy aggregated approximately $1,691,000 and $1,285,000 for the years ended June 30, 2018 and 2017, respectively.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Property tax revenue – The District received approximately 12% in 2018 and 14% in 2017 of its total increase in net position from property taxes. These funds were designated as follows (in thousands):

	June 30, 2018		June 30, 2017	
Designated to support community benefit programs and operating expenses	$	8,281	$	7,902
Designated to support capital expenditures	$	7,831	$	6,959
Levied for debt service	$	9,266	$	10,679

Property taxes are levied by the County of Santa Clara on the District's behalf on January 1 and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Property taxes are considered delinquent on the day following each payment due date. Property taxes are recorded as nonoperating revenue by the District when they are earned.

Grants and contributions – From time to time, the District receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Income taxes – The District operates under the purview of the Internal Revenue Code (the "Code"), Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. CONCERN has also been granted tax-exempt status. However, income from the unrelated business activities of the Hospital and the Foundation is subject to income taxes. ECSC and SVMD are limited liability companies and are treated as pass-through entities for federal income tax purposes. Accordingly, no recognition has been given to federal income taxes in the accompanying consolidated financial statements.

Reclassifications – Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

Restatement – The GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"). GASB No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with Other Post Employment Benefit ("OPEB"), as well as certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The District has adopted this statement for the fiscal year ended June 30, 2018, and as a result, the consolidated financial statements presented herein have been restated retrospectively as follows (in thousands):

	July 1, 2017					
	As previously Reported		Adjustment		As Adjusted	
Unrestricted net position, end of year	$	954,182	$	(11,041)	$	943,141
Total net position, beginning of year	$	1,259,004	$	-	$	1,259,004
Total net position, end of year	$	1,436,122	$	(11,041)	$	1,425,081

New accounting pronouncements - The GASB also issued GASB Statement No. 87, *Leases*, ("GASB No. 87"), which intends to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The adoption of GASB No. 87 is effective for the District beginning July 1, 2020. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

The GASB also issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, ("GASB No. 86"), which provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. Under this statement, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. The adoption of GASB No. 86 is effective for the District beginning July 1, 2018. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

The GASB also issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* ("GASB No. 88"). Among other things, GASB No. 88 clarifies which liabilities governments should include in their note disclosures related to debt. GASB No. 88 requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. GASB No. 88 further defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement further requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The adoption of GASB No. 88 is effective for the District beginning July 1, 2019. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

The GASB also issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* ("GASB No. 89"). GASB No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The adoption of GASB No. 89 is effective for the District beginning July 1, 2020. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

El Camino Healthcare District
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NOTE 2 – OPERATING REVENUES

The following table reflects the percentage of net patient revenues by major payor group for the years ended June 30:

	2018	2017
Medicare (including Medicare HMO)	26%	27%
Commercial and other	70%	68%
Medi-Cal (including Medi-Cal HMO)	4%	5%
	100%	100%

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedules, prepaid payments per member, and per diem payments or a combination of these methods. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors.

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 based on clinical, diagnostic, and other factors. Inpatient services are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per procedure. 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 effect of updating prior year estimates for Medicare and other liabilities was to decrease 2018 income from operations by $3,638,500, and decrease 2017 income from operations by $1,808,000. The Hospital's cost reports have been audited by the Medicare fiscal intermediary through June 30, 2015.

Non-Designated Public Hospitals ("NDPHs"), including the Hospital, were authorized, in 2011's Assembly Bill ("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, 2018 and 2017, the Hospital recognized amounts under the IGT program of $14,862,000 and $18,338,000, respectively, which have been reported as net patient service revenue.

Medi-Cal and contracted rate payors are paid on a percentage of charges, per diem, per discharge, fee schedule, or a combination of these methods.

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 in the near term.

Included in other revenue are amounts from investments in health-related activities, rental income, cafeteria, and other nonpatient care revenue.

NOTE 3 – CASH DEPOSITS

At June 30, 2018 and 2017, District cash deposits had carrying amounts of $126,821,000 and $131,563,000, respectively, and bank balances of $123,918,000 and $136,336,000, respectively. All of these funds were held in cash deposits, which are collateralized with the California Government Code ("CGC"), except for $250,000 per account that is federally insured by the Federal Deposit Insurance Corporation ("FDIC").

The District participates in a cash management program provided by its primary depository institution that allows cash in District concentration accounts to be swept daily and invested overnight in reverse agreements that are not exposed to custodial credit risk because the underlying securities are held by the buyer-lender. At June 30, 2018 and 2017, balances in repurchase agreements had bank balances of $122,709,000 and $134,883,000, respectively, and are included in the carrying amounts above.

NOTE 4 – BOARD-DESIGNATED FUNDS, FUNDS HELD BY TRUSTEE, RESTRICTED FUNDS, AND INVESTMENTS

Board-designated funds, funds held by trustee, restricted funds, and short-term investments, collectively, as of June 30, 2018 and 2017, comprised the following (in thousands):

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
2018				
Cash and cash equivalents	$ 165,038	13	-	$ 165,051
Mutual funds	266,436	80,358	(3,096)	343,698
Real estate funds	27,403	18,287	-	45,690
Hedge funds	119,947	15,487	(518)	134,916
Equities	31,113	9,930	(1,471)	39,572
Fixed income securities	471,148	2,495	(3,699)	469,944
	$ 1,081,085	$ 126,570	$ (8,784)	$ 1,198,871
2017				
Cash and cash equivalents	$ 126,431	$ -	$ -	$ 126,431
Mutual funds	242,539	56,223	(3,952)	294,810
Real estate funds	18,421	8,271	-	26,692
Hedge funds	94,206	5,398	(315)	99,289
Equities	37,930	6,974	(703)	44,201
Fixed income securities	505,082	11,626	(1,681)	515,027
	$ 1,024,609	$ 88,492	$ (6,651)	$ 1,106,450

At June 30, 2018, investment balances and average maturities were as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	$ 164,590	164,590	-	-	-
Government and agencies	187,346	1,922	98,432	13,959	73,033
Corporate bonds	261,427	14,234	175,220	23,906	48,067
Domestic fixed income	19,691	1,142	6,395	8,689	3,465
Foreign fixed income	1,941	1,941	-	-	-
	634,995	$ 183,829	$ 280,047	$ 46,554	$ 124,565
Equities	39,572				
Mutual funds	343,698				
Real estate funds	45,690				
Hedge funds	134,916				
Total	$ 1,198,871				

At June 30, 2017, investment balances and average maturities were as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	$ 126,431	$ 126,431	$ -	$ -	$ -
Government and agencies	120,095	5,103	99,262	10,421	5,309
Corporate bonds	375,766	40,021	226,659	18,828	90,258
Domestic fixed income	26,848	12,012	3,126	8,568	3,142
	649,140	$ 183,567	$ 329,047	$ 37,817	$ 98,709
Equities	32,960				
Mutual funds	298,368				
Real estate funds	26,692				
Hedge funds	99,290				
Total	$ 1,106,450				

Interest rate risk – Through its investment policies, the District manages its exposure to fair value losses arising from increasing interest rates by limiting duration of fixed income securities in its portfolio to no more than 30% of the designated benchmark.

Credit risk – District investment policies require fixed income investments to have a minimum of 85% of a money manager's assets in investment grade assets. The investment policy requires investment managers maintain an average of A- or higher ratings as issued by a nationally recognized rating organization. Additionally, the investment policy requires no more than 5% of a money manager's portfolio at the time of purchase shall be invested in the securities of any one issuer, with the exception of a United States government agency, agency MBS or other Sovereign issues rated AAA or Aaa.

Foreign currency risk – The District's investment policy permits it to invest up to 30% of total investments in foreign currency denominated investments.

Alternative investments risk – The District's alternative investments include ownership interest in a wide variety of partnership and fund structures that may be domestic or offshore. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity and other strategies. Investments in this category may employ leverage to enhance the investment return. The District's holdings can include financial assets such as marketable securities, nonmarketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other funds and partnerships. Generally, these investments do not have a ready market. Interest in these investments may not be traded without approval of the general partner or fund management.

Alternative investments are subject to all of the risks described previously relating to equities and fixed income instruments. In addition, alternative strategies and their underlying assets and rights are subject to a broad array of economic and market vagaries that can limit or erode value. The underlying assets may not be held by a custodian either because they cannot be, or because the entity has chosen not to hold them in this form. Valuations determined by the investment manager, who has a conflict of interest in that he or she is compensated for performance are considered and reviewed by the District's Investment Committee and the Board of Directors. Real assets may be subject to physical damage from a variety of means, loss from natural causes, theft of assets, lawsuits involving rights and other loss and damage including mortgage foreclosure risk. These risks may not be insured or insurable. Tangible assets are subject to loss from theft and other criminal actions and from natural causes. Intangible assets are subject to legal challenge and other possible impairment.

The carrying amount of deposits and investments are included in the District's consolidated statements of net position as follows (in thousands):

	2018	2017
Included in the following consolidated statement of net position captions:		
Short-term investments	$ 244,056	$ 219,126
Current portion of board designated and funds held by trustee	20,963	13,133
Board designated, funds held by trustee, and restricted funds, less current portion	933,852	874,191
Total carrying amount of deposits and investments	$ 1,198,871	$ 1,106,450

NOTE 5 – FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the consolidated statements of net position at June 30, 2018 and 2017, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Mutual funds: Shares of mutual funds are valued at the net asset value ("NAV") of shares held by the District and are valued at the closing price reported on the active market on which the individual securities are traded.

Common stock: Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

Asset-backed securities: Asset-backed securities are valued via model using various inputs such as but not limited to daily cash flow, U.S. Treasury market, floating rate indices such as LIBOR and Prime as a benchmark yield, spread over index, periodic and life caps, next coupon adjustment date, and convertibility of the bond.

Corporate bonds, foreign bonds, and municipal bonds: Valued using pricing models maximizing the use of observable inputs for similar securities which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

U.S. government securities: Fixed income funds are valued at the NAV of shares held by the District and are valued at the closing price reported on the active market on which the individual securities are traded.

Pooled, common & collective trusts: Investments are valued using the NAV of the fund. The NAV of a pooled or collective investment fund is calculated based on a compilation of primarily observable market information. The number of units of the fund that are outstanding on the calculation date is derived from observable purchase and redemption activity in the fund.

Hedge funds: The fair value of the investments is recorded at the investment managers' net asset values, as the managers have the greatest insight into the investments of their fund and the related industry and have the appropriate expertise to determine the NAV. The District assesses the NAV and takes into consideration events such as suspended redemptions, restructuring, secondary sales, and investor defaults to determine if an adjustment is necessary. Additionally, asset holdings are reviewed within investment managers' audited financial statements.

Limited Partnership Interests: The valuation of partnership interests may require significant management judgement. The District's ownership is based upon their percentage of limited partnership interests divided by the total commitment of the fund. Specifically, inputs used to determine fair value include financial statements provided by the investment partnerships, which typically include fair market value capital account balances.

Interest rate swap: The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Beneficial interest in charitable remainder unitrusts: The beneficial interest in charitable remainder unitrusts is measured at fair value, which is estimated as the present value of the expected future cash flows from trusts.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of net position measured at fair value on a recurring basis and the level within the GASB No. 72 fair value hierarchy in which the fair value measurements fall at June 30 (in thousands):

Description	Level 1	Level 2	Level 3	2018
Investments by fair value level				
Asset backed securities				
Corporate backed obligations	$ -	$ 16,404	$ -	$ 16,404
Mortgage backed obligations	-	24,141	-	24,141
Common stock				
ADR & U.S. foreign stock	-	5,671	-	5,671
Energy	5,034	-	-	5,034
Financial services industry	7,100	-	-	7,100
Healthcare industry	5,130	-	-	5,130
Information Technology	5,496	-	-	5,496
Telecommunication services	577	-	-	577
Other	11,663	-	-	11,663
Corporate, municipal and foreign bonds				
Corporate bonds	-	221,026	-	221,026
Private placements	-	19,691	-	19,691
Municipal taxable	-	4,874	-	4,874
Foreign bonds	-	1,941	-	1,941
Mutual funds				
Mutual funds - equity	326,452	-	-	326,452
Mutual funds - taxable	16,379	-	-	16,379
U.S. Government securities				
Government agencies	62,723	-	-	62,723
U.S. treasury notes and bonds	118,191	-	-	118,191
Limited Partnership Interests	-	-	23,725	23,725
Total investments by fair value level	$ 558,745	$ 293,748	$ 23,725	876,218
Cash equivalents				165,051
Investments measured at NAV				
Pooled, common & collective trusts				22,046
Equity, hedge funds				49,290
Credit hedge funds				32,089
Macro hedge funds				37,363
Relative value hedge funds				15,946
Fixed income limited partnership				868
Total investments measured at NAV				157,602
Total investments				$ 1,198,871
Beneficial interest in charitable remainder unitrusts	$ -	$ -	$ 3,638	$ 3,638
Interest rate swap	$ -	$ (5,595)	$ -	$ (5,595)

Description	Level 1	Level 2	Level 3	2017
Investments by fair value level				
Asset backed securities				
Corporate backed obligations	$ -	$ 10,368	$ -	$ 10,368
Mortgage backed obligations	-	47,741	-	47,741
Common stock				
ADR & U.S. foreign stock	-	4,371	-	4,371
Energy	3,635	-	-	3,635
Financial services industry	6,169	-	-	6,169
Healthcare industry	5,929	-	-	5,929
Information Technology	3,978	-	-	3,978
Telecommunication services	771	-	-	771
Other	8,107	-	-	8,107
Corporate, municipal and foreign bonds				
Corporate bonds	-	329,546	-	329,546
Private placements	-	16,253	-	16,253
Municipal taxable	-	4,805	-	4,805
Mutual funds				
Mutual funds - equity	282,832	-	-	282,832
Mutual funds - taxable	15,536	-	-	15,536
U.S. Government securities			-	
Government agencies	10,105	647	-	10,752
U.S. treasury notes and bonds	85,223	-	-	85,223
Limited Partnership Interests	-	-	26,692	26,692
Total investments by fair value level	$ 422,285	$ 413,731	$ 26,692	862,708
Cash equivalents				134,187
Investments measured at NAV				
Pooled, common & collective trusts				19,789
Equity hedge funds				34,944
Credit hedge funds				25,246
Macro hedge funds				25,452
Relative value hedge funds				3,362
Fixed income limited partnership				762
Total investments measured at NAV				109,555
Total investments				$ 1,106,450
Beneficial interest in charitable remainder unitrusts	$ -	$ -	$ 3,521	$ 3,521
Interest rate swap	$ -	$ (7,618)	$ -	$ (7,618)

The following table provides the fair value and redemption terms and restrictions for investments redeemable NAV at June 30 (in thousands):

	2018 Fair Value	2017 Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice
Pooled, common & collective trusts	$ 22,046	$ 19,789	$ -	Monthly	30 days
Equity hedge funds	49,290	34,944	-	Quarterly	90 days
Credit hedge funds	32,089	25,246	-	Monthly, Quarterly	15 - 60 days
Macro hedge funds	37,363	25,452	-	Monthly, Quarterly	5 - 90 days
Relative value hedge funds	15,946	3,362	-	Quarterly, Annually	45 days
Fixed income limited partnership	868	762	-	Monthly	1 day
Total investments measured at NAV	$ 157,602	$ 109,555	$ -		
Limited Partnership Interests	$ 23,725	$ 26,692	$ 16,351	n/a	n/a

Pooled, common & collective trusts - includes investments in one small cap fund that invest in domestic equity. Investments are valued using the NAV per share of the fund. The NAV per share is based on the value of the underlying assets owned by the fund, minus its liabilities, divided by the number of shares outstanding.

Equity hedge funds - includes investments in six hedge funds that employ both long and short strategies primarily in US common stocks. Equity hedge strategies typically have a directional bias (long or short) and trade in equities and equity related derivatives. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 1% of the value of the investments in this type include restrictions such as certain classes with side pocket investments which may only be redeemed upon realization of the underlying investments.

Credit hedge funds - includes investments in three hedge funds that is comprised of distressed securities, credit long/short, emerging market debt and credit event driven. Credit hedge strategies typically have a directional bias and involve the purchase of various types of debt, equity, trade claims and fixed income securities. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 68% of the value of the investments in this type include restrictions that do not allow for redemptions in the first year after acquisition and other imposed gates.

Macro hedge funds - includes investments in four hedge funds that invests in global macro, managed futures, commodities and currencies. Macro hedge strategies typically have a directional bias and involve the purchase of a variety of securities and/or derivatives related to major markets. Managed future strategies trade similar instruments but are typically implemented by computerized system. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Relative value hedge funds - includes investments in four hedge funds that typically does not display a distinct directional bias. Relative value encompasses a range of strategies covering different asset classes. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. Investments representing approximately 1% of the value of the investments may include lock up, imposed gates, and other restrictions that preclude them from redeeming their share or ownership interest for an uncertain or extended period of time from the measurement date.

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Fixed income limited partnership - includes investments in a limited partnership fund of funds that invest primarily in investment grade non-US dollar denominated fixed income securities. The fund may enter into swap agreements, forward settlement agreements, futures, contracts, and options on future contracts as well as purchase and sell covered put and call options. Investments are valued using the NAV per share of the fund. There is a provision in the limited partnership agreement that allows the general partner to limit redemption under certain circumstances.

Limited Partnership Interests - investments in closed-end, commitment based private equity real estate partnerships. The valuation of partnership interests in these funds may require significant management judgement. The District's ownership is based upon their percentage of limited partnership interests divided by the total commitment of the fund. Inputs used to determine fair value include financial statements provided by the investment partnerships, which typically include fair market value capital account balances. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund.

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, is as follows (in thousands):

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 83,462	$ 1,345	$ -	$ 84,807
Construction in progress	138,016	82,974	-	220,990
	221,478	84,319	-	305,797
Capital assets being depreciated				
Land improvement	13,872	1,859	-	15,731
Buildings	760,521	59,752	-	820,273
Capital equipment	352,549	17,454	6,142	363,861
	1,126,942	79,065	6,142	1,199,865
Less accumulated depreciation for				
Land improvement	9,001	820	-	9,821
Buildings	280,857	25,164	-	306,021
Capital equipment	248,951	23,973	3,304	269,620
	538,809	49,957	3,304	585,462
Total capital assets being depreciated, net	588,133	29,108	2,838	614,403
Total capital assets, net	$ 809,611	$ 113,427	$ 2,838	$ 920,200

Capital assets activity for the year ended June 30, 2017, is as follows (in thousands):

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated				
Land	$ 83,462	$ -	$ -	$ 83,462
Construction in progress	45,837	92,179	-	138,016
	129,299	92,179	-	221,478
Capital assets being depreciated				
Land improvement	13,872	-	-	13,872
Buildings	755,211	5,310	-	760,521
Capital equipment	337,341	18,436	3,228	352,549
	1,106,424	23,746	3,228	1,126,942
Less accumulated depreciation for				
Land improvement	8,234	767	-	9,001
Buildings	258,304	22,553	-	280,857
Capital equipment	226,058	24,859	1,966	248,951
	492,596	48,179	1,966	538,809
Total capital assets being depreciated, net	613,828	(24,433)	1,262	588,133
Total capital assets, net	$ 743,127	$ 67,746	$ 1,262	$ 809,611

Construction contracts of approximately $441,490,000 exist for the construction of the four major projects at the Mountain View campus of the Integrated Medical Office Building ("IMOB"), Behavior Health Services replacement building, North Drive parking structure expansion, and Central Utility Plant Upgrade, as well as continued improvements at the Los Gatos site for the Imagining department, medical office building, and seismic upgrades. At June 30, 2018, the remaining commitment on these contracts approximated $271,916,000.

Capitalized interest expense was $16,563,000 and $7,081,000 as of June 30, 2018 and 2017, respectively.

NOTE 7 – EMPLOYEE BENEFIT PLANS

The Hospital sponsors a cash-balance pension plan (the "Plan"), which has been in effect since January 1, 1995. The Plan covers employees who are 21 years of age and have completed one year of credited service. Participants are entitled to a lump-sum distribution or monthly benefits at age 65 based on a predetermined formula that considers years of service and compensation. Effective July 1, 1999, employer Plan benefits are calculated as 5% of a participant's annual plan compensation, and the annual interest is an indexed rate based on the return on 10-year U.S. treasury securities. Participants are fully vested in their account balances after five pension years.

Certain retired and terminated employees and certain participants covered by a collective bargaining agreement continue to participate under provisions of a defined-benefit retirement plan in effect prior to January 1, 1995. Participant data for the Plan, as of the measurement date January 1 for the indicated years is as follows:

	2018	2017
Active	2,676	2,673
Retirees and beneficiaries	526	497
Vested terminated	1,017	1,017
Total participants	4,219	4,187

Components of pension cost and deferred outflows and inflows of resources as calculated under the requirements of GASB No. 68 are as follows (in thousands):

	2018	2017
Deferred outflows of resources as of June 30:		
Difference between expected and actual experience	$ 2,103	$ 308
Changes in assumptions	311	474
Difference between projected and actual investment earnings	-	8,315
Total	$ 2,414	$ 9,097
Deferred inflows of resources as of June 30:		
Difference between expected and actual experience	$ (2,934)	$ (3,607)
Changes in assumptions	(7,398)	(7,059)
Difference between projected and actual investment earnings	(11,001)	-
Total	$ (21,333)	$ (10,666)
Contributions between the measurement date and fiscal year end recognized as a deferred outflow of resources	$ 5,200	$ 5,700

Amounts reported as deferred outflows and inflows of resources to pensions will be recognized in pension expense are as follows (in thousands):

2019	$ (3,019)
2020	(3,374)
2021	(5,578)
2022	(5,445)
2023	(1,300)
Thereafter	(202)
	$ (18,918)

The following table summarizes changes in pension liability for fiscal year ended June 30, 2018 and 2017, with a measurement date of December 31, 2017 and 2016, respectively, (in thousands):

	2018	2017
Service cost	$ 8,633	$ 8,948
Interest	11,849	11,893
Differences between expected and actual experience	2,228	(3,044)
Changes of assumptions	(1,877)	(6,663)
Benefit payments	(13,271)	(9,912)
Net change in total pension liability	7,562	1,222
Total pension liability beginning of fiscal year	195,370	194,148
Total pension liability end of fiscal year	$ 202,932	$ 195,370

	2018 with Measurement Date of December 31, 2017	2017 with Measurement Date of December 31, 2016
Total pension liability	$ 202,932	$ 195,370
Plan fiduciary net position	260,016	228,052
Net pension asset	$ (57,084)	$ (32,682)
Plan's fiduciary net position as a percentage of total pension liability	128.13%	116.73%
Covered payroll	$ 297,737	$ 283,435
Net pension asset as a percentage of covered payroll	-19.17%	-11.53%
Contributions between the measurement date and year ended June 30, 2018 as deferred outflow of resources	$ 5,200	$ 5,700

The following table summarizes the actuarial assumptions used to determine net pension asset and plan fiduciary net position as of June 30, 2018 and 2017:

Valuation Date	Contributions related to the actuarially determined contributions are made for the plan year January 1 to December 31.
Actuarial Cost Method	Entry Age Normal Method in accordance with GASB 68
Asset Valuation Method	Market Value
Actuarial Assumptions	
Projected Salary Increases	4.00%
Mortality	Based on the RE-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and project with Mortality Improvement Scale MP-2017
Discount Rate	6.00%

Sensitivity of net pension asset (in thousands):

	1% Decrease 5%	Current Discount Rate 6%	1% Increase 7%
Net pension asset as of December 31, 2017	$ (36,579)	$ (57,084)	$ (74,694)
Net pension asset as of December 31, 2016	$ (12,665)	$ (32,682)	$ (49,843)

The following table summarizes target asset class for the plan fiduciary net position as of June 30, 2018 and 2017:

Asset Class	Neutral	Asset Rebalancing Range	Expected Long-Term Real Rate of Return
Domestic Equities	32%	27% - 37%	8.69%
International Equities	18%	15% - 21%	7.66%
Alternatives	20%	17% - 23%	5.38%
Broad Fixed Income	25%	20% - 30%	2.86%
Cash	5%	0% - 8%	1.04%
Total	100%		6.00%

Eligible employees of the Hospital may also elect to participate in a separate deferred compensation plan (the 403(b) plan) pursuant to Section 403(b) of the Code. The Hospital acts as the administrator and sponsor, and the 403(b) plan's assets are held by trustees designated by the Hospital's management. Employees are eligible to participate upon employment, and participants are immediately vested in their elective contributions plus actual earnings thereon. The Hospital will match employee contributions to the 403(b) plan, subject to a maximum of 4% of each participant's annual plan compensation. Participants are eligible for employer match in the second plan year in which they work at least 1,000 hours, and they must be on the payroll at the end of the plan year (December 31). Employer matching contributions under the 403(b) plan are made to the cash–balance pension plan and earn interest as defined by that plan. Employer matching contributions to the 403(b) plan of $10,625,000 and $10,031,000 in 2018 and 2017, respectively, are included in benefits expense. Participants are immediately vested in the employer contributions included in the cash-balance pension plan.

The Hospital's net pension asset was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

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 consolidated 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.

NOTE 8 – POST-RETIREMENT MEDICAL BENEFITS

The Hospital provides healthcare benefits and life insurance for retired employees who meet eligibility requirements as outlined in the plan document, as approved by the board of directors of the Hospital. All employees who attain age 55 with a minimum of 20 years of enrollment in the Hospital's healthcare program and are enrolled in one of the plans upon retirement, and who were hired prior to July 1, 1994, are eligible. Under the plan, employees are credited with employment history accumulated under a prior Hospital plan.

Benefits are funded by the Hospital on a pay-as-you go basis. If a participant terminates from the Hospital after 20 years of enrollment but before reaching age 62, he or she can choose to contribute to the plan between ages 55 and 61 to retain the plan's benefits. At age 62, eligible retirees are given an annual credit based on years of service to pay for health benefits.

Employees covered – At June 30, 2018, the following employees were covered by the Hospital:

	2018
Active	318
Inactive plan members or beneficiaries currently receiving benefits	284
Inactive plan members entitled to but not yet receiving benefits	-
Total participants	602

Components of post-retirement medical benefits expense and deferred inflows and outflows of resources as calculated under the requirements of GASB No. 75 are as follows (in thousands) as of June 30, 2018:

		2018
Service cost	$	299
Interest		819
Differences between expected and actual experience		(447)
Changes of assumptions		-
Benefit payments		-
Total post-retirement medical benefits expense	$	671

El Camino Healthcare District
Notes to Consolidated Financial Statements

		2018
Deferred outflows of resources as of June 30:		
Changes in benefit terms	$	-
Difference between expected and actual experience		-
Changes in assumptions		-
Total	$	-
Deferred inflows of resources as of June 30:		
Changes in benefit terms	$	-
Difference between expected and actual experience		-
Changes in assumptions		(1,502)
Total	$	(1,502)

Amounts reported as deferred outflows and inflows of resources to post-retirement medical benefits will be recognized in post-retirement medical benefits expense are as follows (in thousands):

2019	$	(447)
2020		(447)
2021		(447)
2022		(161)
2023		-
Thereafter		-
	$	(1,502)

The following table summarizes changes in post-retirement medical benefits liability for fiscal year ended June 30, 2018, with a measurement date of July 1, 2017 (in thousands):

	2018
Service cost	$ 299
Interest	819
Change in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other input	(1,502)
Contributions - El Camino Hospital	-
Benefit payments	(663)
Net changes	(1,047)
Net post-retirement medical benefits liability at beginning of year	30,259
Net post-retirement medical benefits liability at end of year	$ 29,212

The following table summarizes the actuarial assumptions used to determine net pension asset and plan fiduciary net position as of June 30, 2018:

Valuation Date	July 1, 2017
Actuarial Cost Method	Entry Age Normal, level percent of pay
Asset Valuation Method	Not applicable
Actuarial Assumptions	
Projected Salary Increases	4.00%
Mortality	RP-2014 Healthy Annuitant and Employee tables for males and females scaled back to 2006 using scale MP-2014, and then projected generationally using projection scale MP-2016.
Discount Rate	3.13%
Healthcare cost trend rates:	8% for 2018, graded to 4.5% for year 2027 and beyond for ages pre-65; and 6% for 2018, graded to 4.50% for year 2027 and beyond for ages post-65.

Sensitivity of post-retirement medical benefits liability (in thousands) due to change in discount rates:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
Net post-retirement medical benefits liability	$ 32,983	$ 29,212	$ 26,049

Sensitivity of post-retirement medical benefits liability (in thousands) due to change in healthcare cost trend:

	1% Decrease	Current Trend rate	1% Increase
Net post-retirement medical benefits liability	$ 28,677	$ 29,212	$ 29,845

El Camino Healthcare District
Notes to Consolidated Financial Statements

NOTE 9 – INSURANCE PLANS

The Hospital purchases professional, general, automobile, and directors and officers liability insurance from BETA Healthcare Group ("BHG"), and also purchases all-risk property insurance (including limited flood), fiduciary, crime, cyber, and excess workers' compensation coverage needs from Alliant Insurance Services ("Alliant"). The Hospital's coverage is under a claims-made policy with limits of $30 million per occurrence, $40 million in the annual aggregate, and with a self-insured retention level of $50,000 per claim.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted from services provided to patients. The Hospital has actuarial estimates performed annually on its self-insurance plans of professional liability and workers' compensation benefits. Estimated liabilities (which have not been discounted) have been actuarially determined at an expected 75% confidence level and include an estimate of incurred, but not reported, claims. The balances are included in salaries and wages payable, workers' compensation and other long-term liabilities in the accompanying consolidated statements of net position.

NOTE 10 – BONDS PAYABLE

Bonds payable consists of the following obligations (in thousands):

	June 30, 2018	2017
El Camino Hospital District		
2006 General Obligation Bonds		
Principal	$ 32,335	$ 32,335
Unamortized premium	645	723
2017 General Obligation Bonds		
Principal	95,465	99,035
Unamortized premium	1,197	1,842
El Camino Hospital Revenue Bonds		
Series 2009		
Principal	50,000	50,000
Series 2015A		
Principal	147,610	151,345
Unamortized premium	12,484	14,194
Series 2017A		
Principal	292,435	292,435
Unamortized premium	17,224	19,423
Total long-term debt	649,395	661,332
Less current maturities	7,160	7,305
Maturities due after one year	$ 642,235	$ 654,027

	2018			
	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
General obligation bonds	$ 133,935	$ -	$ 4,293	$ 129,642
Revenue bonds	527,397	-	7,644	519,753
	$ 661,332	$ -	$ 11,937	$ 649,395

	2017			
	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
General obligation bonds	$ 136,460	$ 101,600	$ 104,125	$ 133,935
Revenue bonds	221,021	311,858	5,482	$ 527,397
	$ 357,481	$ 413,458	$ 109,607	$ 661,332

2006 General Obligation Bonds – Upon voter approval, in November 2003, the District issued in 2006, $148,000,000 principal amount of 2006 General Obligation Bonds, which consists of $115,665,000 of Current Interest Bonds. Interest on the Current Interest Bonds is payable semiannually at rates ranging from 4% to 5% and principal maturities ranging from $2,065,000 in 2016 to $18,050,000 in 2036 are due annually on August 1. Interest at rates ranging from 4.38% to 4.48% and principal of the Capital Appreciation Bonds are payable only at maturity. In March 2017, the District advanced refunded a portion of the 2006 General Obligation Bonds, through the issuance of the 2017 General Obligation Refunding Bonds.

The Current Interest Bonds maturing on or after August 1, 2017, may be redeemed prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after February 1, 2017, at a redemption price equal to the principal amount of the Current Interest Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

The Bonds are general obligations of the District payable from ad valorem taxes. Payment of principal, interest and maturity value of the Bonds, when due, is insured by a municipal bond insurance policy.

2017 General Obligation Bonds – Upon voter approval, in March 2017, the District advanced refunded a portion of the 2006 General Obligation Bonds, through the issuance of the $99,035,000 2017 General Obligation Refunding Bonds, which consists of $115,665,000 of Current Interest Bonds, and $32,335,000 of Capital Appreciation Bonds. Interest on the 2017 General Obligation Refunding Bonds is payable semiannually at rates ranging from 2% to 5% and principal maturities ranging from $3,570,000 in 2017 to $17,480,000 in 2036 are due annually on August 1. This refinancing resulted in a reduction of future interest payments with a present value of approximately $7,000,000.

Revenue Bonds, Series 2009 – In April 2009, the Hospital issued $50,000,000 of Santa Clara County Financing Authority Insured Revenue Bonds, Series 2009A to fund completion of the Hospital replacement construction project. Interest on the bonds is payable on the business day immediately following the applicable remarketing period. Principal maturities on the bonds range from $100,000 in 2025 to $10,920,000 in 2044, and are due annually on February 1.

The 2009 Series Revenue bond agreement contains various restrictive covenants which include, among other things, minimum debt service coverage, maintenance of minimum liquidity, and requirement to maintain certain financial ratios.

The bonds are secured by a pledge of gross revenues to an Indenture of Trust ("Indenture") dated March 16, 2007. The Indenture contains certain covenants that, among other things, require the District to deposit all gross revenues of the Hospital as soon as practicable upon receipt. The Indenture also requires the Hospital to maintain a long-term debt service coverage ratio of 1.15 to 1.00. Failure to comply with the restrictive covenants of the Indenture could result in all of the unpaid principal and accrued interest of the bonds becoming due immediately, at the option of the trustee.

Revenue Bonds, Series 2015A – In May 2015, the Hospital advance refunded its Series 2007 Santa Clara County Financing Authority Insured Revenue Bonds ("Series 2007") through the issuance of the $160,455,000 of Santa Clara County Financing Authority Insured Revenue Bonds ("Series 2015A"). The issuance of the Series 2015A is to (i) finance and refinance certain capital expenditures owned by the Hospital (the Project - $40,300,000), (ii) advance refund ($120,100,000) the Santa Clara County Financing Authority Insured Revenue Bonds of the Hospital Series 2007A, 2007B, and 2007C, and (iii) pay costs incurred in the connection of the issuance of the Bonds.

Revenue Bonds, Series 2017A – In February 2017, the Hospital issued $292,435,000 of California Health Facilities Financing Authority Revenue Bonds ("Series 2017") to finance certain capital expenditures at facilities owned or operated by the Hospital, to finance a portion of the interest payable of the Series 2017 through January 31, 2019, and to pay costs incurred in connection with the issuance of the Series 2017. The Series 2017 consists of $130,660,000 Serial Bonds and $161,775,000 Term Bonds. Principal maturities for the Serial Bonds range from $4,665,000 in 2020 to $10,565,000 in 2037, and are due annually on February 1. Principal maturities for the Term Bonds range from $30,7101,000 in 2042 to $56,065,000 in 2047, and are due annually on February 1.

Letter of credit – In March 2009, in connection with the issuance of the 2009 Series Revenue bonds, the Hospital obtained an irrevocable Letter of Credit issued by a bank for $50,000,000. This Letter of Credit expires October of 2019 and requires the Hospital to maintain a long-term debt service coverage ratio of 1.20 to 1.00.

Debt service requirements for bonds payable are as follows (in thousands):

Year Ending	General Obligation Bonds		Revenue Bonds	
June 30,	Principal	Interest	Principal	Interest
2019	3,310	3,916	3,850	20,819
2020	3,800	3,816	8,630	20,704
2021	4,400	3,626	9,020	20,312
2022	5,050	3,406	9,430	19,902
2023	5,760	3,154	9,905	19,431
2024-2028	17,252	36,157	57,445	89,246
2029-2033	27,083	41,241	73,045	73,914
2034-2038	61,145	6,400	81,180	55,471
2039-2043	-	-	112,900	33,847
2044-2048	-	-	124,640	12,564
	$ 127,800	$ 101,716	$ 490,045	$ 366,210

Interest rate swap – On March 7, 2007, the Hospital entered into three interest rate swap agreements in connection with the issuance of the Series 2007 Revenue Bonds. The intention of the swap is to create debt with a synthetic, fixed interest rate on the variable-rate Revenue Bonds. The swaps were effective March 23, 2007, with a termination date of February 1, 2041, and notional amounts of $50 million each, these terms match the terms of the underlying Series 2007 Revenue Bonds. Under each swap transaction, the Hospital pays a fixed rate of interest of 3.204% and the counterparty pays a variable rate of interest equal to the sum of (i) 56% of USD-LIBOR-BBA plus (ii) .23%. In March 2008, the Hospital Board directed management to terminate the floating to fixed interest rate swap when economically prudent in connection with the refunding of their Series 2007 Revenue Bonds. In December 2009, two of the three swaps were terminated. The fair value of the remaining swap is a liability of $5,595,000 at June 30, 2018, and $7,618,000 at June 30, 2017, included in other long-term obligations in the consolidated statements of net position.

Risks associated with the swap agreements – From the Hospital's perspective, the following risks are generally associated with swap agreements:

Credit risk – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event the counterparty becomes insolvent or their credit rating falls below BBB-/Baa2 the Hospital has the right to terminate the swap. Upon exercise of early termination, the amounts due from or to the counterparty will be determined by the market pricing of the swaps at the time of termination.

Termination risk – The Hospital or counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If, at the time of the termination, the swap has a negative fair value, the Hospital would be liable to the counterparty for that payment.

NOTE 11 – RESTRICTED NET POSITION

Restricted net position consists of donor-restricted contributions and grants and cash restricted for regulatory requirements, which are to be used as follows (in thousands):

	2018	2017
Charity and other	$ 15,652	$ 11,651
Endowments	3,318	3,062
Restricted by donor for specific uses	18,970	14,713
Restricted by Department of Managed Health Care	400	400
Total restricted net position	$ 19,370	$ 15,113

Permanently restricted contributions ("endowments") remain intact, with the earnings on such funds providing an ongoing source of revenue to be used primarily for education.

El Camino Healthcare District
Notes to Consolidated Financial Statements

NOTE 12 – CHARITABLE REMAINDER UNITRUSTS

The Foundation is the beneficiary of several irrevocable charitable remainder unitrusts in which the gift assets are held by trustees and administered for the benefit of the Foundation and other beneficiaries. The assets are held under trust agreements with an outside trustee. The donors maintain the right to income earned on the assets during their lifetime and, in some cases, during the lifetime of their survivors.

Pursuant to GASB 81, the Foundation recognizes an asset and a deferred inflow of resources when it becomes aware of the agreements and has sufficient information to measure the beneficial interest, in accordance with the asset recognition criteria in GASB 81. The beneficial interest asset is measured at fair value, which is estimated as the present value of the expected future cash flows from trusts. The applicable federal discount rate for June 2018 and June 2017 of 3.4% and 2.4% per annum, respectively, and The Standard Ordinary Mortality Rate Table were used to arrive at the present value. Change in the fair value of the beneficial interest asset is recognized as an increase or decrease in the related deferred inflow of resources. As the remainder interest beneficiary, the Foundation recognizes revenue for the beneficial interest at the termination of the agreement, as stipulated in the agreements.

NOTE 13 – RELATED-PARTY TRANSACTIONS

The Hospital pays vendor-related expenses on behalf of the Foundation and is reimbursed for these costs incurred. The Hospital also pays employee-related expenses, which are reimbursed by the Foundation. The Foundation's employees also participate in the cash-balance pension plan, sponsored by the Hospital. Full footnote disclosures relating to the cash-balance pension plan is included in the consolidated financial statements. The Hospital performs certain administrative functions on behalf of the Foundation for which no amounts are charged to the Foundation. As of June 30, 2018 and 2017, the Foundation has a payable to the Hospital in the amount of $173,000 and $203,000, respectively. During the fiscal years 2018 and 2017, the Foundation paid the Hospital $2,576,000 and $3,452,000 for such expenses, respectively, which included amounts for operations, but also disbursements from Donor Restricted Funds in support of Hospital operations and capital acquisitions.

In June 2012, the Hospital Board approved the funding of the Foundation's salaries, wages, and benefits for fiscal year 2018 and 2017, thus along with the 2012 fiscal year approved funding of the Foundation's rent provided a maximum funding of $1,783,000 for both items on an ongoing basis. All related party transactions are eliminated upon consolidation.

As of June 30, 2018 and 2017, CONCERN has a payable to the Hospital in the amount of $1,077,000 and $1,189,000, respectively. During the fiscal years ended June 30, 2018 and 2017, CONCERN paid the Hospital $11,576,000 and $12,339,000 for these expenses, respectively. All related party transactions are eliminated upon consolidation.

The Hospital leases the space to ECASC and provides certain services, such as utilities and building/equipment maintenance. There was $658,000 of rental income recorded for the year ended June 30, 2018, and $498,000 of rental income recorded for the year ended June 30, 2017, related to the lease.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation – The District is a defendant in various legal proceedings arising out of the normal conduct of its business. In the opinion of management and its legal representatives, the District has valid and substantial defenses, and settlements or awards arising from legal proceedings, if any, will not exceed existing insurance coverage, nor will they have a material adverse effect on the financial position, results of operations, or liquidity of the District.

Lease commitments – The District is obligated for land and office rental under the terms of various operating lease agreements. Following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2018 (in thousands):

	Operating Lease Commitments	Lease Income	Net Lease Benefit
2019	$ 3,037	$ 11,850	$ 8,813
2020	3,104	8,349	5,245
2021	2,796	6,296	3,500
2022	2,872	5,132	2,260
2023	2,633	2,939	306
Thereafter	28,070	8,273	(19,797)
	$ 42,512	$ 42,839	$ 327

Total rental expense in 2018 and 2017 for all operating leases was approximately $6,016,000 and $5,949,000, respectively.

Regulatory environment – The healthcare 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, government healthcare 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 healthcare providers. The District is subject to routine surveys and reviews by federal, state and local regulatory authorities. The District has also received inquiries from healthcare regulatory authorities regarding its compliance with laws and regulations. Although the District management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and on-going surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and noncompliance with survey corrective action requests could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. 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.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Hospital Seismic Safety Act – In the 2010 fiscal year, the Mountain View campus completed its three-year construction of the Hospital Replacement Project with the opening of its new five story, 450,000 square foot, state-of-the-art hospital facility on November 15, 2009. This completion made the Mountain View hospital campus in compliance with the State of California's Senate Bill ("SB") 1953 in meeting all requirements of the Hospital Seismic Safety Act of 1994.

At the Los Gatos campus, where most of the buildings were constructed in the 1960's, the campus has been going through a seismic compliance review. All required seismic upgrades to make the Los Gatos site in seismic compliance to 2030 were completed during 2015.

NOTE 15 – HEALTH CARE REFORM

The Patient Protection and Affordable Care Act ("PPACA") allowed for the expansion of Medicaid members in the State of California. Any further federal or state changed funding could have an impact on the District. With the changes in the executive branch, the future of PPACA and impact of future changes in Medicaid to the District is uncertain at this time.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of net position date but before the consolidated financial statements are available to be issued. The District recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the consolidated statement of net position date, including the estimates inherent in the process of preparing the consolidated financial statements. The District's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated statement of net position date but arose after the consolidated statement of net position date and before consolidated financial statements are available to be issued.

El Camino Healthcare District
Consolidating Statement of Net Position
June 30, 2018
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	El Camino Surgery Center, LLC	Silicon Valley Medical Development	Eliminations	El Camino Healthcare District and Affiliates
ASSETS AND DEFERRED OUTFLOWS								
Current assets								
Cash and cash equivalents	$ 4,306	$ 118,992	$ 160	$ 1,702	$ 789	$ 872	$ -	$ 126,821
Short-term investments	5,377	224,672	937	13,070	-	-	-	244,056
Current portion of board designated and funds held by trustee	20,963	-	-	-	-	-	-	20,963
Patient accounts receivable, net of allowances for doubtful accounts of $41,009	-	124,427	-	487	-	-	-	124,914
Prepaid expenses and other current assets	31	24,003	464	199	-	35	(2,325)	22,407
Total current assets	30,677	492,094	1,561	15,458	789	907	(2,325)	539,161
Non-current cash and investments								
Board-designated funds	9,394	675,503	30,098	-	-	-	-	714,995
Restricted funds	-	-	-	400	-	-	-	400
Funds held by trustee	20,837	197,620	-	-	-	-	-	218,457
	30,231	873,123	30,098	400	-	-	-	933,852
Capital assets								
Nondepreciable	10,585	295,212	-	-	-	-	-	305,797
Depreciable, net	393	609,674	41	632	-	3,663	-	614,403
Total capital assets	10,978	904,886	41	632	-	3,663	-	920,200
Pledges receivable, net of current portion	-	-	4,170	-	-	-	-	4,170
Prepaid pension asset	-	57,084	-	-	-	-	-	57,084
Investments in healthcare affiliates	-	32,412	-	-	1,381	660	(3,185)	31,268
Beneficial interest in charitable remainder unitrust	-	-	3,638	-	-	-	-	3,638
Total assets	71,886	2,359,599	39,508	16,490	2,170	5,230	(5,510)	2,489,373
Deferred outflows of resources								
Loss on defeasance of bond payable	-	13,562	-	-	-	-	-	13,562
Deferred outflows of resources	-	5,200	-	-	-	-	-	5,200
Deferred outflows - actuarial	-	2,414	-	-	-	-	-	2,414
Total deferred outflows of resources	-	21,176	-	-	-	-	-	21,176
Total assets and deferred outflows of resources	$ 71,886	$ 2,380,775	$ 39,508	$ 16,490	$ 2,170	$ 5,230	$ (5,510)	$ 2,510,549

El Camino Healthcare District
Consolidating Statement of Net Position (continued)
June 30, 2018
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	El Camino Surgery Center, LLC	Silicon Valley Medical Development	Eliminations	El Camino Healthcare District and Affiliates
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION								
Current liabilities								
Accounts payable and accrued expenses	$ -	$ 49,768	$ -	$ 786	$ 10	$ 1,266	$ (794)	$ 51,036
Salaries, wages, and related liabilities	-	53,508	-	458	-	40	-	54,006
Other current liabilities	2,111	20,859	604	1,200	-	-	(1,530)	23,244
Estimated third-party payor settlements	-	10,068	-	-	-	-	-	10,068
Current portion of bonds payable	3,310	3,850	-	-	-	-	-	7,160
Total current liabilities	5,421	138,053	604	2,444	10	1,306	(2,324)	145,514
Bonds payable, net of current portion	126,332	515,903	-	-	-	-	-	642,235
Other long-term obligations	-	9,454	-	-	-	-	-	9,454
Workers' compensation, net of current portion	-	17,963	-	-	-	-	-	17,963
Post-retirement medical benefits, net of current portion	-	29,212	-	-	-	-	-	29,212
Total liabilities	131,753	710,585	604	2,444	10	1,306	(2,324)	844,378
Deferred inflows of resources								
Deferred inflows of resources	-	-	3,638	-	-	-	-	3,638
Deferred inflows of resources - actuarial	-	22,835	-	-	-	-	-	22,835
Total deferred inflows of resources	-	22,835	3,638	-	-	-	-	26,473
Net position								
Invested in capital assets, net of related debt	(76,864)	582,753	41	632	-	3,663	-	510,225
Restricted - expendable	-	-	15,652	-	-	-	-	15,652
Restricted - nonexpendable	-	-	3,318	400	-	-	-	3,718
Unrestricted	16,997	1,064,602	16,255	13,014	2,160	261	(3,186)	1,110,103
Total net position	(59,867)	1,647,355	35,266	14,046	2,160	3,924	(3,186)	1,639,698
Total liabilities, deferred inflows of resources, and net position	$ 71,886	$ 2,380,775	$ 39,508	$ 16,490	$ 2,170	$ 5,230	$ (5,510)	$ 2,510,549

El Camino Healthcare District
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	El Camino Surgery Center, LLC	Silicon Valley Medical Development	Eliminations	El Camino Healthcare District and Affiliates
Operating revenues								
Net patient service revenue (net of provision for bad debts of $21,407)	$ -	$ 900,868	$ -	$ -	$ -	$ 155	$ -	$ 901,023
Other revenue	92	29,718	-	13,581	-	47	(746)	42,692
Total operating revenues	92	930,586	-	13,581	-	202	(746)	943,715
Operating expenses								
Salaries, wages and benefits	-	465,265	1,437	3,662	-	768	-	471,132
Professional fees and purchased services	592	109,300	730	7,723	103	2,255	(134)	120,569
Supplies	-	127,895	81	-	-	96	-	128,072
Depreciation	231	49,477	57	6	-	186	-	49,957
Rent and utilities	-	15,487	13	377	-	-	(94)	15,783
Other	-	12,803	134	323	1	731	(94)	13,898
Total operating expenses	823	780,227	2,452	12,091	104	4,036	(322)	799,411
(Loss) income from operations	(731)	150,359	(2,452)	1,490	(104)	(3,834)	(424)	144,304
Nonoperating revenues (expenses):								
Investment income, net	175	57,340	1,164	(20)	4	-	-	58,663
Property tax revenue								
Designated for community benefit programs and operating expenses	8,281	-	-	-	-	-	-	8,281
Designated for capital expenditures	7,831	-	-	-	-	-	-	7,831
Levied for debt service	9,266	-	-	-	-	-	-	9,266
Bond interest expense, net	(3,183)	(5,828)	-	-	-	-	-	(9,011)
Intergovernmental transfer expense	(6,469)	-	-	-	-	-	-	(6,469)
Restricted gifts, grants and bequests, and other, net of contributions to related parties	-	-	5,723	-	-	-	(1,374)	4,349
Unrealized gain on interest rate swap	-	1,151	-	-	-	-	-	1,151
Community benefit expense	(6,847)	(3,153)	-	(2,234)	-	-	1,729	(10,505)
Other, net	(4)	1,040	-	1,714	-	4,498	(491)	6,757
Total nonoperating revenues (expenses)	9,050	50,550	6,887	(540)	4	4,498	(136)	70,313
Excess (deficit) of revenues over expenses before capital transfers	8,319	200,909	4,435	950	(100)	664	(560)	214,617
Capital transfers	6,469	(8,763)	-	(498)	-	2,792	-	-
Increase (decrease) in net position	14,788	192,146	4,435	452	(100)	3,456	(560)	214,617
Total net (deficit) position, beginning of year	(74,655)	1,466,250	30,831	13,594	2,260	468	(2,626)	1,436,122
Cumulative effect of restatement	-	(11,041)	-	-	-	-	-	(11,041)
Total net (deficit) position, beginning of year, as restated	(74,655)	1,455,209	30,831	13,594	2,260	468	(2,626)	1,425,081
Total net (deficit) position, end of year	$ (59,867)	$ 1,647,355	$ 35,266	$ 14,046	$ 2,160	$ 3,924	$ (3,186)	$ 1,639,698

Supplemental pension information – The following tables summarize changes in net pension asset (in thousands):

	2018	2017
Service cost	$ 8,633	$ 8,948
Interest	11,849	11,893
Differences between expected and actual experience	2,228	(3,044)
Changes of assumptions	(1,877)	(6,663)
Benefit payments	(13,271)	(9,912)
Net change in total pension liability	7,562	1,222
Total pension liability beginning of fiscal year	195,370	194,148
Total pension liability end of fiscal year	$ 202,932	$ 195,370

	2018	2017
Contributions	$ 10,900	$ 10,300
Net investment income	34,335	10,865
Benefit payments, including refunds of member contributions	(13,271)	(9,912)
Net change in Plan fiduciary net position	31,964	11,253
Plan fiduciary net position beginning of fiscal year	228,052	216,799
Plan fiduciary net position end of fiscal year	260,016	228,052
Plan's net pension asset end of the fiscal year	$ (57,084)	$ (32,682)
Covered payroll	$ 297,737	$ 283,435
Net pension asset as a percentage of covered payroll	-19.17%	-11.53%
Contributions	$ 5,200	$ 5,700

The following table summarizes the contribution status of the Hospital's cash-balance pension plan (in thousands) over the last 10 years:

	FY2018	FY2017	FY2016	FY2015	FY2014
Actuarially determined contribution	$ 10,154	$ 8,445	$ 2,735	$ -	$ 8,463
Contributions related to actuarially determined contribution	11,600	10,900	10,500	10,800	14,400
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	297,737	283,435	283,776	266,844	242,343
Contribution as % of covered payroll	3.90%	3.85%	3.70%	4.05%	5.94%
Contributions made during the fiscal year	10,400	10,900	9,900	14,400	12,600

	FY2013	FY2012	FY2011	FY2010	FY2009
Actuarially determined contribution	$ 7,613	$ 1,400	$ 12,023	$ 7,156	$ 4,656
Contributions related to actuarially determined contribution	12,000	11,005	19,811	7,644	9,200
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	223,754	208,910	205,693	178,937	149,694
Contribution as % of covered payroll	5.36%	5.27%	9.63%	4.27%	6.15%
Contributions made during the fiscal year	23,610	11,249	5,400	18,100	6,300

Actuarially determined contributions are calculated as of January 1 and are based on the IRS minimum funding requirement. The contributions related to the actuarially determined contributions are amounts made for the plan year January 1 to December 31. Contributions made during the fiscal year are contribution amounts made during July 1 and June 30.

Supplemental post-retirement benefit information – as of June 30, 2018, post-retirement medical benefits plan's fiduciary net position as a percentage of the total OPEB liability is 0%.

The 2017 covered payroll for the active population eligible to participate in the post-retirement medical benefits plan is $35,794,800. The net post-retirement medical benefits liability as of July 1, 2017, is $29,212,400. The net post-retirement medical benefits liability as a percentage of covered-employee payroll is 81.61%.

El Camino Healthcare District
Supplemental Schedule of Community Benefit (unaudited)
For the Years Ended June 30, 2018 and 2017

The District and the Hospital maintain records to identify and monitor the level of direct community benefit it provides. These records include the charges foregone for providing the patient care furnished under its charity care policy. For the years ended June 30, 2018 and 2017, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows (in thousands):

	2018	2017
Unpaid costs of Medi-Cal programs	$ 30,556	$ 25,427
Indigent charity care	1,691	1,285
	32,247	26,712
Other community-based programs		
Dialysis	79	-
Psychiatric	6,918	8,435
Clinical trial	728	99
Ambulatory care	9,711	11,371
Community health center	360	1,819
Psychiatric outpatient	3,451	3,073
Total other community-based programs	21,247	24,797
Total community benefits	$ 53,494	$ 51,509

In furtherance of its purpose to benefit the community, the Hospital provides numerous other services to the community for which charges are not generated and revenues have not been accounted for in the accompanying consolidated financial statements. These services include providing access to healthcare through interpreters, referral and transport services, healthcare screening, community support groups and health educational programs, and certain home care and hospice programs. The estimated costs of Medicare programs in excess of reimbursement from Medicare were $104,776,000 and $105,414,000 for the years ended June 30, 2018 and 2017, respectively.

The Hospital also provides services to the community through the operations of the El Camino Hospital Auxiliary, Inc. (the "Auxiliary"). Services provided by volunteers of the Auxiliary, free of charge to the community, include assistance and counseling to patients and visitors, provision of scholarship awards to qualifying paramedical students, and daily personal contact with members of the community who are living alone. In 2018 and 2017, these volunteers contributed approximately 85,000 and 94,000 hours, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.