*Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information*

# El Camino Healthcare District

*June 30, 2020 and 2019*

MOSSADAMS

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# Management's Discussion and Analysis

El Camino Healthcare District (the "District") is comprised of six 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 July 26, 2019, El Camino Hospital bought out the partnership that ECSC had with El Camino Ambulatory Surgery Center ("ECASC"), which operated an outpatient surgery center on the Mountain View campus. ECASC sold many of its capital assets to ECH and ECSC received its share of equity in partnership. ECASC completed its business unwinding during the fiscal year and distributed any remaining proceeds to ECSC. The Hospital renovated the former ECASC surgery center building and acquired new equipment that was put into place, and reopened the surgery center as an outpatient hospital department on June 29, 2020.

SVMD was organized as a California Limited Liability Corporation ("LLC") that was formed in 2008. Starting in fiscal year 2019 and continuing into the current fiscal year, SVMD has expanded to 14 clinic and urgent care sites that included certain assets of five clinics acquired through bankruptcy of Verity Health System in April 2019. The approximate number of affiliated physician providers has grown to 83 providers at year end across El Camino Medical Associates ("ECMA") and San Jose Medical Group ("SJMG") physician groups.

### *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, 2020, 2019, and 2018. 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 the 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, 2020*

For fiscal year ending June 30, 2020, the District increased its net position by $130 million. In 2020, operating revenues increase by $35 million over 2019, this was the result of an improved payer mix over FY 2019, Inter-Governmental Transfer ("IGT") / cost report settlements of $14.9 million and Health and Human Services stimulus funds of $19.0 million. In April 2020 the organization received $75.8 million in advance Medicare payments, which will be withheld from future Medicare services starting in 120 days after receipt.

***Year Ended June 30, 2019***

For fiscal year ending June 30, 2019, the District increased its net position by $178 million. In 2019, operating revenues increased by $53 million over 2018, this was the result of good volume, an increase in the commercial payer mix of 1% and IGT / cost report settlements of $20.4 million.

***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 $38 million over the fiscal year of 2017, which had been the most successful year in the District's history. This $38 million increase was entirely earned out of operations with significant growth in operating revenues.

**Summary of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position**
**As of June 30, 2020, 2019 and 2018**

(In Thousands)

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Assets:** | | | |
| Current assets | $ 653,665 | $ 578,195 | $ 539,161 |
| Board designated and restricted funds, net of current portion | 872,034 | 786,202 | 715,395 |
| Funds held by trustee, net of current portion | 50,825 | 107,101 | 218,457 |
| Capital assets, net | 1,166,036 | 1,096,493 | 920,200 |
| Other assets | 114,359 | 78,841 | 96,160 |
| **Total assets** | **2,856,919** | **2,646,832** | **2,489,373** |
| **Deferred outflows:** | | | |
| Loss on defeasance of bond payable | 12,361 | 12,962 | 13,562 |
| Deferred outflow of resources | 6,532 | 7,436 | 5,200 |
| Deferred outflow - actuarial | 1,861 | 10,546 | 2,414 |
| **Total deferred outflows** | **20,754** | **30,944** | **21,176** |
| **Total assets and deferred outflows** | **$ 2,877,673** | **$ 2,677,776** | **$ 2,510,549** |
| **Liabilities:** | | | |
| Current liabilities | $ 221,415 | $ 161,709 | $ 145,514 |
| Bonds payable, net of current portion | 607,953 | 625,443 | 642,235 |
| Other long-term liabilities | 69,886 | 59,437 | 56,629 |
| **Total liabilities** | **899,254** | **846,589** | **844,378** |
| **Deferred inflows:** | | | |
| Deferred inflow of resources | 3,893 | 3,893 | 3,638 |
| Deferred inflow - actuarial | 26,806 | 9,375 | 22,835 |
| **Total deferred inflows** | **30,699** | **13,268** | **26,473** |
| **Net position:** | | | |
| Unrestricted and invested in capital assets, net | 1,919,091 | 1,793,704 | 1,620,328 |
| Restricted by donors - charity and other | 20,606 | 16,759 | 15,652 |
| Restricted - endowments | 8,023 | 7,456 | 3,718 |
| **Total net position** | **1,947,720** | **1,817,919** | **1,639,698** |
| **Total liabilities, deferred inflows, and net position** | **$ 2,877,673** | **$ 2,677,776** | **$ 2,510,549** |
| Operating cash equivalents and short-term investments | $ 461,221 | $ 393,519 | $ 370,877 |
| Board designated, funds held by trustee, and restricted funds | 949,354 | 917,081 | 954,815 |
| **Total available cash & investments** | **$ 1,410,575** | **$ 1,310,600** | **$ 1,325,692** |

### *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 Board). 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 28 managers in fiscal year 2020.

### *Capital Assets*

Continuing on from fiscal year 2019, in fiscal year 2020, the Hospital continued construction on its remaining three of four major projects at its Mountain View site, as its fourth project that of the expansion of the North Drive Parking Garage was completed in August 2017 at its projected cost of $24.5 million. In financing the four projects (which included expanded capacity of its Central Utility Plant), the Hospital issued $292,435,000 of tax exempt revenue bonds in March 2017 to assist in covering a total of $432 million in expenditures. The remaining monies to complete the projects will come from the Hospital’s surplus cash, as is the costs to build the medical offices of the Integrated Medical Office Building. The status on the three remaining projects is as follows:

Replacement of the Behavior Health Building was substantially completed in winter 2020, and was opened to patient care on June 10, 2020. The complete close out of the project will occur in fiscal year 2021. The project is projected at $96.1 million with approximately $90.5 million in costs incurred at the end of FY2020.

Construction of an integrated medical office building (“IMOB”) and an associated parking structure was substantially completed in winter 2020, and began having certain clinical and support departments moving into the structure on June 26, 2020 that had been housed in the original hospital tower. Total cost is $302.1 million, with approximately $286.1 million in costs incurred at the end of FY2020. As with the Behavior Health Building, the final close out of the project will occur in fiscal year 2021.

The Women’s Hospital renovation is currently under review by California’s Office of Statewide Hospital Planning and Development with plan approval and building permits expected by late October 2020. At that time, a final projected budget will be taken to the Board. Current total project costs is projected to be $155 million. The Board thus far at the end of fiscal year 2020 has approved $16 million for the preliminary planning, design, and development of the project, with $6.7 million in costs expended at the end of fiscal year 2020.

The final Mountain View Campus Completion Project will be done in three (3) phases with phases 1 and 2 being a temporary Shipping and Receiving yard and the demolition of the original hospital completed in the early 1960's. An approved budget of $24.9 million was approved in October 2019 to complete phase 1 and 2. Phase 3 is in development, and will include replacement of a Lab/Laundry building structure, construction of a corridor link between the new Main Hospital and the Behavior Health Building, new service yard with access to shipping and receiving dock at the new Main Hospital, new waste and recycle storage areas, water storage tanks to meet 2030 seismic requirements, and a landscaped courtyard between the New Main Hospital and the Behavior Health Building as required by the Planned Community Permit. A projected budget will be brought forward upon complete development of this final phase to complete the Mountain View campus.

At the Los Gatos campus, the construction of an Infusion Center was completed and opened in April 2020. The project was completed at $6.3 million. The project was financed by $42 million of the $160 million 2015A tax exempt bonds issued for various upgrades to the Los Gatos campus, of which this Infusion Center was the final project.

SVMD completed its state of the art clinic in the San Jose area. The project expended $7.0 million for its completion.

### *Revenues and Expenses*

The following table displays revenues and expenses for 2020, 2019, and 2018:

**Revenues & Expenses**
**Years Ended June 30, 2020, 2019 and 2018**

(In Thousands)

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Operating revenues:** | | | |
| Net patient service revenue net of bad debt of $15,925, $13,293, and $21,407 in 2020, 2019, and 2018, respectively | $ 982,697 | $ 951,610 | $ 901,023 |
| Other revenue | 48,440 | 45,064 | 42,692 |
| **Total operating revenues** | **1,031,137** | **996,674** | **943,715** |
| **Operating expenses:** | | | |
| Salaries, wages and benefits | 541,009 | 510,178 | 471,132 |
| Professional fees and purchased services | 170,994 | 133,807 | 120,569 |
| Supplies | 152,466 | 147,284 | 128,072 |
| Depreciation | 54,038 | 52,437 | 49,957 |
| Rent and utilities | 26,815 | 20,414 | 15,783 |
| Other | 22,167 | 14,265 | 13,898 |
| **Total operating expenses** | **967,489** | **878,385** | **799,411** |
| **Operating income** | **63,648** | **118,289** | **144,304** |
| **Nonoperating revenue (expense) items:** | | | |
| Bond interest expense, net | (12,879) | (8,024) | (9,011) |
| Intergovernmental transfer expense | (4,048) | (7,262) | (6,469) |
| Realized investment income | 43,085 | 34,671 | 27,936 |
| Unrealized investment (losses) gains | (2,231) | 19,598 | 30,727 |
| Property tax revenues | 29,369 | 27,675 | 25,378 |
| Restricted gifts, grants and other net of contributions to related parties | 8,412 | 5,816 | 4,349 |
| Unrealized (loss) gain on interest rate swap | (3,366) | (2,598) | 1,151 |
| Community benefit expense | (12,091) | (11,971) | (10,505) |
| Other, net | 19,902 | 2,027 | 6,757 |
| **Total nonoperating revenues and expenses** | **66,153** | **59,932** | **70,313** |
| **Increase in net position** | **129,801** | **178,221** | **214,617** |
| **Total net position, beginning of year** | **1,817,919** | **1,639,698** | **1,436,122** |
| **CUMULATIVE EFFECT OF RESTATEMENT** | **-** | **-** | **(11,041)** |
| **Total net position, beginning of year, as restated** | **1,817,919** | **1,639,698** | **1,425,081** |
| **Total net position, end of year** | **$ 1,947,720** | **$ 1,817,919** | **$ 1,639,698** |

### Fiscal Year 2020 Consolidated Financial Analysis

#### *Net Patient Services Revenues*

Net patient services revenue in fiscal year 2020 increased by $31.1 million, or 3.3% over fiscal year 2019. This increase was consistent with cost of inflation.

| Specialty | 2020 Days | 2019 Days | % Change |
|---|---|---|---|
| Medical/Surgical | 58,823 | 63,320 | -7% |
| Maternity | 13,327 | 13,463 | -1% |
| Pediatrics | 8 | 12 | -33% |
| NICU | 4,205 | 4,216 | 0% |
| Psychiatry | 6,583 | 7,099 | -7% |
| Normal newborn | 9,768 | 9,951 | -2% |
| **Total** | **92,714** | **98,061** | **-5.5%** |

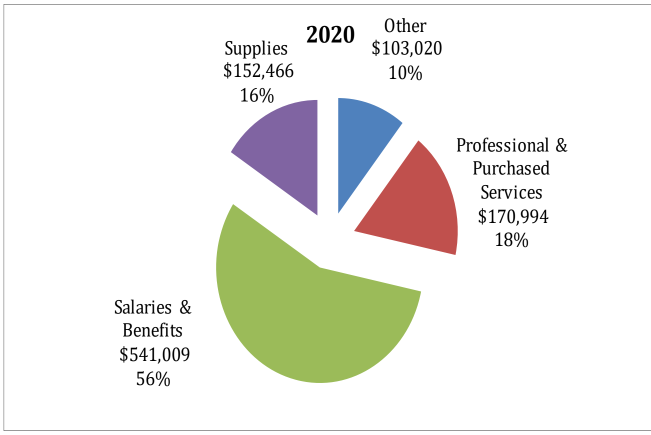
| Specialty | 2020 LOS | 2019 LOS | % Change |
|---|---|---|---|
| Medical/Surgical | 4.4 | 4.5 | -2% |
| Maternity | 3.0 | 3.0 | 0% |
| Pediatrics | 0.8 | 0.9 | -11% |
| NICU | 10.6 | 11.3 | -6% |
| Psychiatry | 8.2 | 8.5 | -4% |
| Normal newborn | 2.4 | 2.4 | 0% |
| **Average Length of Stay ("LOS")** | **4.0** | **4.3** | **-7.0%** |

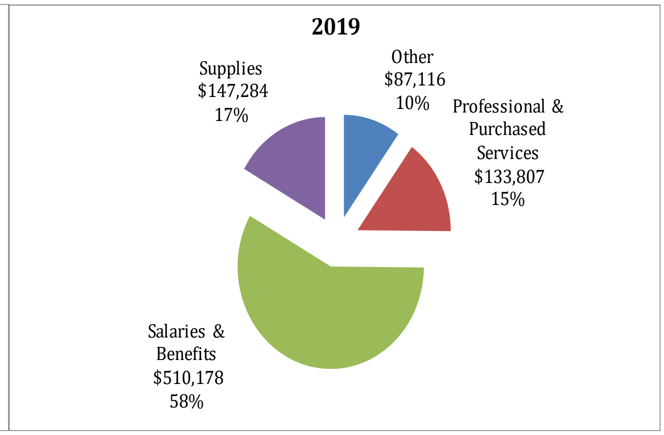
The overall case mix index, which is an indicator of patient acuity, was 1.54 in fiscal year 2020, and 1.52 in fiscal year 2019.

#### *Other Revenue*

Other revenues increased by $3.4 million in fiscal year 2020 over the prior 2019 fiscal year. The primary increase of $8.7 million was due to new payer capitation contracts that were assumed with the acquisition of San Jose Medical Group, along with an agreement to continue to provide Hospitalist services to the county hospitals for one year. This increase was offset by a loss of revenue in our Employee Assistance Program ("EAP"). In addition, there was a reduction of $2.1 million in retail operations due to COVID-19.

***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 $30.8 million in fiscal year 2020 over 2019, which is 56% of total operating expenses and a reduction of 2% from fiscal year 2019 which was 58% of total operating expenses. Salaries and wages (exclusive of employee benefits) increased by $29.3 million over fiscal year 2019. Registered Nurses' ("RN"), including registries, payroll salaries increased by $19.5 million in fiscal year 2020 compared to 2019 primarily driven by a 3% contractual increase that occurred September 22, 2019 for Hospital RNs, along with additional increases for longevity at years of service of 10 and 25. Another area that saw growth in salary expense was in SVMD as it began operations supporting the San Jose Medical Group and other physician initiatives in April 2019, thus salaries within SVMD grew by $9.6 million in fiscal year 2020 over fiscal year 2019. Other areas within the Hospital also increased due to salary increases and volumes and activities. In total the FTE (full time equivalent) grew by 81 FTE's over fiscal year 2019. Again a significant portion of the FTE increase was the employee growth in SVMD given the support of the San Jose Medical Group that began in April 2019.

With an RN turnover rate of 1.5%, the Hospital continues to do better than the Northern California rate of 1.9% as published by the California Hospital Association ("CHA") at the end of calendar year 2019.

Employees represented by SEIU United Healthcare Workers ("SEIU-UHW") are under a current contract that extends through June 30, 2021. In fiscal year 2020, SEIU-UHW workers received a 1.5% increase on July 14, 2019 and January 12, 2020 respectively, and an additional step increase at 20 years of service.

The Hospital's Stationary Engineers – Local 30 are under a five-year contract through October 31, 2021, and received a two-part contractual increase of 2% effective on November 3, 2019 and May 3, 2020 respectively.

Hospital represented, non-management staff on a merit-based compensation structure received an annual increase averaging 2.7% at the end of the 2019 fiscal year that was paid out in early July 2019.

Management and executive staff received market-based adjustments or merit increases averaging 3.09% in late August 2019.

***Employee Benefits***

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

Significant changes were as follows:

- Pension expense decreased by $4.2 million, primarily by increased investment returns on the Plan's investment in the past year.
- PTO accrued expense increased by $2.5 million over the 2019 fiscal year.
- Employer FICA (Social Security and Medicare) taxes increased by $3.0 million in the current fiscal year.
- Healthcare (medical, dental, and vision) increased by $1.3 million in fiscal year 2020 over 2019.
- Worker's Compensation expense decreased $2.2 million in fiscal year 2020 over 2019.
- Other employee benefits increased $1.0 million in fiscal year 2020 over 2019.

***Professional and Purchased Services***

Total professional and purchased services increased by $37.3 million over the prior fiscal year.

The significant increases were as follows:

- Professional Service Agreements and Purchased Services associated with SVMD increased by $26.5 million over prior year, mainly due to the acquisition of the San Jose Medical Group in April 2019.
- Purchases Services increased by $7.1 million over prior year at the Hospital due to in cost associated with COVID-19 testing and consulting fee for major projects (Workday and Construction).

***Supplies***

Total supplies increased by $5.2 million or 3.5% in fiscal year 2020 over 2019. Volume at the Cancer Infusion Center increased by 11% along with higher acuity patients. The retail pharmacy volume increased by 26% and normal inflation factors accounted for the remaining variance.

***Depreciation***

Depreciation expense this fiscal year increased by $1.6 million over fiscal year 2019. Increases were in the areas of a full year of depreciation on a Central Utility Plant upgrade at the Mountain View campus that came on-line the later part of fiscal year 2019 and various structure upgrades at the Los Gatos campus.

***Rent and Utilities***

Rent and utilities this fiscal year was increased by $6.4 million over fiscal year 2019, and was primarily driven by leased building cost, of which $4.0 million was attributable to new leases of properties by SVMD for its various San Jose Medical Group sites that began in April 2019.

***Other Expense***

Other expense increased in current fiscal year by $7.9 million over the prior year, principally for annual dues and subscription fees and offsite seminars and associated travel expense, with $5.0 million increase in legal reserve.

<u>Non-operating Revenue (Expense) Items:</u>

***Bond Interest Expense, net***

The increase of $4.9 million in fiscal year 2020 over the prior year was due to tentative completion of the Integrated Medical Office Building and the Behavioral Health Building in January 2020 that was being partially financed by the 2017 Bond issue.

***Change in Net Unrealized Gains and Losses on Investments***

For fiscal year 2020, the Hospital had approximately 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 a change in net unrealized gains and losses on investments of -$5.7 million during fiscal year 2020 and the change in net unrealized gains and losses for fiscal year 2020 was a year over year (“YOY”) decrease of $25.3 million. The change in net unrealized gains and losses in 2020 were a result of poor investment results primarily from hedge fund and private real estate investments. Hedge funds experienced a change in net unrealized gains and losses of -$11.1 million during fiscal year 2020 as distressed credit-oriented strategies lagged broader markets. The positive change in net unrealized gains and losses from equity and fixed income investments helped offset the impact of hedge fund and private real estate investments. Global equities as represented by the MSCI AC World Index gained 2.6% during fiscal year 2020, while fixed income as represented by the Bloomberg Barclays U.S. Aggregate Index gained 8.7% during the same time-period.

The YOY decrease in net unrealized gains and losses was broad based across asset classes with the most significant declines resulting from fixed income and hedge fund investments. Fixed income investments experienced larger net unrealized gains in fiscal year 2019 in comparison to fiscal year 2020, while hedge fund investments experienced modest net unrealized losses in fiscal year 2019 in relation to larger net unrealized losses in fiscal year 2020.

### *Economic Factors and Next Year's Budget*

The Board approved the fiscal year 2021 budget at the August 2020 meeting. The District is budgeting a combined increase in net position of $27.2 million. For the fiscal year 2021 budget, volumes are projected to decrease 9% due to a measured recovery expected from FY2020 4th quarter COVID-19 impact, reimbursement rates are projected to increase by 2.6%, and expenses are projected to decrease 0.5% compared to fiscal year 2020. The focus for FY2021 will be to successfully navigate the continued uncertainties presented by COVID-19.

## Fiscal Year 2019 Consolidated Financial Analysis

### *Net Patient Services Revenues*

Net patient services revenue in fiscal year 2019 increased by $50.6 million, or 5.6% over fiscal year 2018. This increase was due to several factors which included an IGT payment of $15.8 million; $4.6 million of cost report settlement; and volume increases in Oncology Visits (9.0%), Rehabilitation Procedure (8.0%) and General Surgery (6.6%).

| Specialty | 2019 Days | 2018 Days | % Change |
|---|---|---|---|
| Medical/Surgical | 63,320 | 61,869 | 2.3% |
| Maternity | 13,463 | 14,200 | -5.2% |
| Pediatrics | 12 | 25 | -52.0% |
| NICU | 4,216 | 4,350 | -3.1% |
| Psychiatry | 7,099 | 6,823 | 4.0% |
| Normal newborn | 9,951 | 10,467 | -4.9% |
| **Total** | **98,061** | **97,734** | **0.3%** |

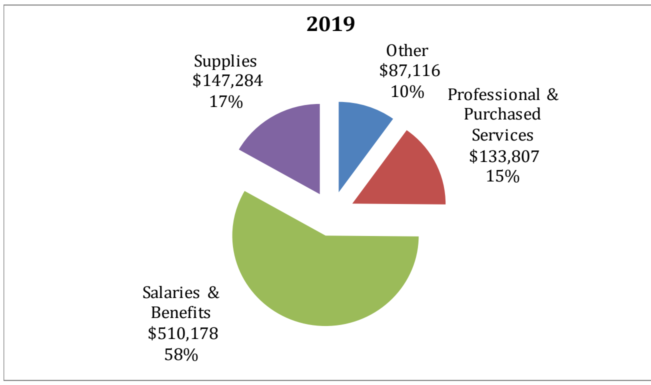
| Specialty | 2019 LOS | 2018 LOS | % Change |
|---|---|---|---|
| Medical/Surgical | 4.5 | 4.5 | 0.0% |
| Maternity | 3.0 | 3.0 | 0.0% |
| Pediatrics | 0.9 | 1.7 | -47.1% |
| NICU | 11.3 | 10.5 | 7.6% |
| Psychiatry | 8.5 | 7.9 | 7.6% |
| Normal newborn | 2.4 | 2.5 | -4.0% |
| **Average LOS** | **4.3** | **4.2** | **2.4%** |

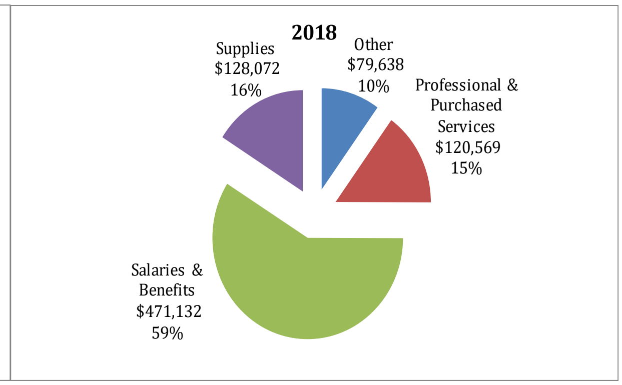
The overall case mix index, which is an indicator of patient acuity, was 1.52 in fiscal year 2019, and 1.54 in fiscal year 2018.

### *Other Revenue*

Other revenues increased by $2.4 million in fiscal year 2019 over the prior 2018 fiscal year. The primary increase of $5.3 million was due to new payer capitation contracts that were assumed with the acquisition of San Jose Medical Group, along with an agreement to continue to provide Hospitalist services to the county hospitals for one year. This increase was offset by a loss of two major "Employee Assistance Program" contracts that are provided through the CONCERN entity.

### *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 $39.0 million in fiscal year 2019 over 2018, which is 58% of total operating expenses and consistent with fiscal year 2018. Salaries and wages (exclusive of employee benefits) increased by $27.4 million over fiscal year 2018. Registered Nurses' ("RN"), including registries, payroll salaries increased by $11.7 million in fiscal year 2019 compared to 2018 primarily driven by a 4% salary increase granted toward the end of the 2018 fiscal year and increased patient volumes. Another area that saw growth in salary expense was in SVMD as it began operations supporting the San Jose Medical Group and other physician initiatives in April 2019, thus salaries within SVMD grew by $5.3 million in fiscal year 2019 over fiscal year 2018. Other areas within the Hospital also increased due to salary increases and volumes and activities. In total the FTE (full time equivalent) grew by 103 FTE's over fiscal year 2018. Again a significant portion of the FTE increase was the employee growth in SVMD given the support of the San Jose Medical Group.

With an RN turnover rate of 2.1%, the Hospital continues to do better than the Northern California rate of 3.4% and the statewide rate of 3.0%, as published by the California Hospital Association ("CHA") at the end of the first quarter of the calendar year 2019.

Employees are represented by the Professional Resources for Nurses ("PRN"). On August 30, 2019, El Camino Hospital reached a tentative contract agreement with the PRN, which was subsequently ratified by vote on September 10, 2019.

Employees represented by SEIU United Healthcare Workers ("SEIU-UHW") are under a current contract that extends through June 30, 2021. In fiscal year 2019, SEIU-UHW workers received a 3.0% contractual wage increase effective July 1, 2018.

The Hospital's Stationary Engineers – Local 39 members ratified a five-year contract through October 31, 2021. Local 39 members received a two-part contractual increase during fiscal year 2019, 2.0% effective November 4, 2018 and another 2.0% effective May 5, 2019.

Hospital-represented, non-management staff on a merit-based compensation structure received annual merit increases averaging 3.0% in July 2018.

Management and executive staff received market-based adjustments or merit increases averaging 3.6% in August 2018.

### *Employee Benefits*

Aggregate employee benefits, including accrued paid time off ("PTO") and extended sick leave increased by $11.6 million.

Significant increases were as follows:

- Pension expense increased by $2.2 million, primarily by decreased investment returns on the Plan's investment in the past year.
- PTO accrued expense increased by $2.4 million over the 2018 fiscal year.
- Employer FICA (Social Security and Medicare) taxes increased by $1.7 million in the current fiscal year.
- Healthcare (medical, dental, and vision) increased by $2.0 million in fiscal year 2019 over 2018.

### *Professional and Purchased Services*

Total professional and purchased services increased by $13.2 million over the prior fiscal year.

**The significant increases were as follows:**

- Professional Service Agreements associated with SVMD increased by $6.3 million over prior year, mainly due to the acquisition of the San Jose Medical Group.
- Purchases Services increased by $6.9 million over prior year due to cost associated with expansion of services due to growth and services to support SVMD.

***Supplies***

Total supplies increased by $19.2 million in fiscal year 2019 over 2018. Pharmaceuticals increased by $4.0 million over the 2018 fiscal 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 10.5% for the year. Spine surgery had increased utilization causing a $3.5 million increase 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.

***Depreciation***

Depreciation expense this fiscal year increased by $2.5 million over fiscal year 2018. 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 increased by $4.6 million over fiscal year 2018, and was primarily driven by leased building cost, of which $2.6 million was attributable to new leases of properties by SVMD for its various clinic sites.

***Other Expense***

Other expense increased in current fiscal year by $367,000 over the prior year, principally for annual dues and subscription fees and offsite seminars and associated travel expense.

***Non-operating Revenue and Expenses***

***Bond Interest Expense, net***

The decrease of $987,000 in fiscal year 2019 over the prior year was due to the majority of interest being capitalized as the two large projects are still under construction. Nonetheless, the parking structure addition at the Mountain View campus was completed in August 2017 as were 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 2019, 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 $19.6 million during fiscal year 2019 and the change in net unrealized gains and losses for fiscal year 2019 was a year over year ("YOY") decrease of $11.1 million. The change in net unrealized gains and losses in 2019 were a result of strong investment results that were widespread across investment portfolios with particularly strong results within equities and fixed income investments. Fixed income investments experienced a change in net unrealized gains and losses of $14.6 million during fiscal year 2019 as a decrease in interest rates positively impacted the market value of existing holdings. Externally held funds (excluding hedge funds) and mutual fund investments generated $8.8 million in change in unrealized gains and losses. Within mutual funds, most equity funds generated unrealized gains throughout fiscal year 2019; however, U.S. domiciled holdings fared best. These results were consistent with strong equity market returns within domestic, and to a lesser extent, international equity markets as the S&P 500 Index returned +10.4% and the MSCI All Country World Index ex USA (net) returned +1.3% during fiscal year 2019. Separate account equities experienced negative changes in net unrealized gains and losses of $1.6 million as the U.S. large-cap value equity manager realized gains on asset sales, which reduced unrealized gains. Hedge fund investments experienced a fall of $3.1 million to the change in unrealized gains and losses with losses across the equity, credit, and macro strategies, partially offset by gains from the relative value strategy.

The YOY decrease in net unrealized gains and losses was due to a $15.5 million decrease in externally held funds (excluding hedge funds) and mutual fund investments, a $12.9 million decrease due to hedge fund investments, and a $3.7 million decrease due to separate account equities. This was partially offset by a $20.8 million increase due to fixed income investments. Within mutual fund investments, despite strong absolute gains in fiscal year 2019, equity funds were not able to keep pace with the level of gains experienced in fiscal year 2018, across both domestic and international equity holdings. The MSCI All Country World Index ex USA (net) returned +1.3% during fiscal year 2019, whereas the Index gained +7.3% in fiscal year 2018. Additionally, within domestic markets the S&P 500 Index gained +14.4% in fiscal year 2018 and +10.4% in fiscal year 2019.

# 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, 2020 and 2019, 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 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, 2020 and 2019, 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.

### *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 61 and 62, 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 58 through 60, 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 63 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 21, 2020

# Consolidated Financial Statements

# El Camino Healthcare District
## Consolidated Statements of Net Position
## June 30, 2020 and 2019
## (In Thousands)

| | 2020 | 2019 |
|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 235,381 | $ 131,362 |
| Short-term investments | 225,840 | 262,157 |
| Current portion of board-designated funds | 26,495 | 23,778 |
| Patient accounts receivable, net of allowances for doubtful accounts of $60,439 and $48,123 in 2020 and 2019, respectively | 129,485 | 130,702 |
| Prepaid expenses and other current assets | 36,464 | 30,196 |
| Total current assets | 653,665 | 578,195 |
| Non-current cash and investments | | |
| Board-designated funds | 871,384 | 785,552 |
| Restricted funds | 650 | 650 |
| Funds held by trustee | 50,825 | 107,101 |
| | 922,859 | 893,303 |
| Capital assets | | |
| Nondepreciable | 582,752 | 483,909 |
| Depreciable, net | 583,284 | 612,584 |
| Total capital assets | 1,166,036 | 1,096,493 |
| Pledges receivable, net of current portion | 4,402 | 4,444 |
| Prepaid pension asset | 78,615 | 40,762 |
| Investments in healthcare affiliates | 27,449 | 29,742 |
| Beneficial interest in charitable remainder unitrusts | 3,893 | 3,893 |
| Total assets | 2,856,919 | 2,646,832 |
| Deferred outflows of resources | | |
| Loss on defeasance of bonds payable | 12,361 | 12,962 |
| Deferred outflows of resources | 6,532 | 7,436 |
| Deferred outflows - actuarial | 1,861 | 10,546 |
| Total deferred outflows of resources | 20,754 | 30,944 |
| Total assets and deferred outflows of resources | $ 2,877,673 | $ 2,677,776 |

 See accompanying notes.

## (In Thousands)

| | 2020 | 2019 |
|---|---|---|
| **LIABILITIES, DEFERRED INFLOWS, AND NET POSITION** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 35,465 | $ 57,529 |
| Salaries, wages, and related liabilities | 63,333 | 58,941 |
| Medicare accelerated payments | 75,076 | - |
| Other current liabilities | 23,165 | 21,653 |
| Estimated third-party payor settlements | 10,956 | 11,156 |
| Current portion of bonds payable | 13,420 | 12,430 |
| Total current liabilities | 221,415 | 161,709 |
| Bonds payable, net of current portion | 607,953 | 625,443 |
| Other long-term obligations | 22,674 | 11,525 |
| Workers' compensation, net of current portion | 16,482 | 18,432 |
| Post-retirement medical benefits, net of current portion | 30,730 | 29,480 |
| Total liabilities | 899,254 | 846,589 |
| Deferred inflow of resources | | |
| Deferred inflow of resources | 3,893 | 3,893 |
| Deferred inflow of resources - actuarial | 26,806 | 9,375 |
| Total deferred inflow of resources | 30,699 | 13,268 |
| Net position | | |
| Invested in capital assets, net of related debt | 595,488 | 565,721 |
| Restricted - expendable | 20,606 | 16,759 |
| Restricted - nonexpendable | 8,023 | 7,456 |
| Unrestricted | 1,323,603 | 1,227,983 |
| Total net position | 1,947,720 | 1,817,919 |
| Total liabilities, deferred inflows of resources, and net position | $ 2,877,673 | $ 2,677,776 |

See accompanying notes.

# El Camino Healthcare District
## Consolidated Statements of Revenues, Expenses, and Changes in Net Position
## Years Ended June 30, 2020 and 2019
## (In Thousands)

| | 2020 | 2019 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Net patient service revenue (net of provision for bad debts of $15,925 and $13,293 in 2020 and 2019, respectively) | $ 982,697 | $ 951,610 |
| Other revenue | 48,440 | 45,064 |
| Total operating revenues | 1,031,137 | 996,674 |
| **OPERATING EXPENSES** | | |
| Salaries, wages, and benefits | 541,009 | 510,178 |
| Professional fees and purchased services | 170,994 | 133,807 |
| Supplies | 152,466 | 147,284 |
| Depreciation | 54,038 | 52,437 |
| Rent and utilities | 26,815 | 20,414 |
| Other | 22,167 | 14,265 |
| Total operating expenses | 967,489 | 878,385 |
| Income from operations | 63,648 | 118,289 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Investment income, net | 40,854 | 54,269 |
| Property tax revenue | | |
| Designated to support community benefit programs and operating expenses | 9,170 | 8,697 |
| Designated to support capital expenditures | 9,706 | 8,989 |
| Levied for debt service | 10,493 | 9,989 |
| Bond interest expense, net | (12,879) | (8,024) |
| Intergovernmental transfer expense | (4,048) | (7,262) |
| Restricted gifts, grants and bequests, and other, net of contributions to related parties | 8,412 | 5,816 |
| Unrealized loss on interest rate swap | (3,366) | (2,598) |
| Community benefit expense | (12,091) | (11,971) |
| Other, net | 19,902 | 2,027 |
| Total nonoperating revenues | 66,153 | 59,932 |
| Increase in net position | 129,801 | 178,221 |
| **TOTAL NET POSITION,** beginning of year | 1,817,919 | 1,639,698 |
| **TOTAL NET POSITION,** end of year | $ 1,947,720 | $ 1,817,919 |

 See accompanying notes.

# El Camino Healthcare District
## Consolidated Statements of Cash Flows
## Years Ended June 30, 2020 and 2019
## (In Thousands)

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from and on behalf of patients | $ 979,666 | $ 926,355 |
| Other cash receipts | 67,613 | 45,064 |
| Medicare accelerated payments | 75,076 | - |
| Cash payments to employees | (534,911) | (505,243) |
| Cash payments to suppliers | (431,515) | (316,516) |
| Net cash provided by operating activities | 155,929 | 149,660 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Property taxes | 18,876 | 17,686 |
| Restricted contributions and investment income | 8,412 | 5,816 |
| Net cash provided by noncapital financing activities | 27,288 | 23,502 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Purchases of property, plant, and equipment | (107,239) | (230,508) |
| Proceeds from disposal of property, plant and equipment | - | 310 |
| Payments on bonds payable | (12,430) | (7,160) |
| Interest paid on General Obligation bonds payable | (2,829) | (3,183) |
| Tax revenue related to General Obligation bonds payable | 10,493 | 9,989 |
| Net cash used in capital and related financing activities | (112,005) | (230,552) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of investments | (1,257,978) | (884,635) |
| Sales of investments | 1,205,746 | 792,912 |
| Investment income, net | 40,854 | 54,269 |
| Community benefit and other investing activities | (12,091) | (11,971) |
| Change in funds held by trustee, net | 56,276 | 111,356 |
| Net cash provided by investing activities | 32,807 | 61,931 |
| Net increase in cash and cash equivalents | 104,019 | 4,541 |
| **CASH AND CASH EQUIVALENTS** at beginning of year | 131,362 | 126,821 |
| **CASH AND CASH EQUIVALENTS** at end of year | $ 235,381 | $ 131,362 |
| **RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES** | | |
| Income from operations | $ 63,648 | $ 118,289 |
| Adjustments to reconcile income from operations to net cash from operating activities | | |
| Gain on disposal of property, plant and equipment | - | (234) |
| Amortization of bond premium and bond issuance costs | (4,070) | (4,362) |
| Depreciation | 54,038 | 52,437 |
| Provision for bad debts | 15,925 | 13,293 |
| Changes in assets and liabilities | | |
| Patient accounts receivable, net | (14,708) | (19,081) |
| Prepaid expenses and other current assets | (40,281) | 8,149 |
| Medicare accelerated payments | 75,076 | - |
| Current liabilities | (26,698) | 1,463 |
| Other long-term obligations | 5,633 | 1,030 |
| Deferred inflows/outflows of resources - actuarial | 26,116 | (21,592) |
| Post-retirement medical benefits | 1,250 | 268 |
| Net cash provided by operating activities | $ 155,929 | $ 149,660 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES** | | |
| Noncash purchase of property, plant, and equipment | $ 16,305 | $ 1,702 |
| Change in fair value of beneficial interest in charitable remainder unitrusts, and deferred inflow of resources, net | $ - | $ 255 |

See accompanying notes.

## NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** – The El Camino Healthcare District (the "District") includes the following component units, which are included as blended component units of the District's consolidated financial statements: El Camino Hospital (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, 2020, the Hospital owns 100% of ECSC.

SVMD was organized as a California Limited Liability Corporation ("LLC") that was formed in 2008. Starting in fiscal year 2019 and continuing into the current fiscal year, SVMD has expanded to 14 clinic and urgent care sites that included certain assets of five clinics acquired through bankruptcy of Verity Health System in April 2019. The approximate number of affiliated physician providers has grown to 83 providers at year end across El Camino Medical Associates ("ECMA") and San Jose Medical Group ("SJMG") physician groups.

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.

**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 2020 and 2019, 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 (the "Board") for future capital improvements and other operational reserves, over which the Board 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 to 47 years |
| Equipment | 3 to 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.

**Prepaid expenses and other current assets** – Prepaid expenses and other current assets consist primarily of premiums paid in advance, inventories, dues, and other receivables related to new capitation and hospitalist contracts associated with Silicon Valley Medical Development. Prepaid expenses and other current assets consist of the following at June 30:

| | June 30, | |
|---|---|---|
| | **2020** | **2019** |
| Inventory | $ 13,690 | $ 13,152 |
| Hospitalist receivable | 7,478 | 1,127 |
| Prepaid expense and other deposits | 8,876 | 9,862 |
| Other receivables | 6,420 | 6,055 |
| | $ 36,464 | $ 30,196 |

**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.

| 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.

| | **2020** | **2019** |
|---|---|---|
| Deferred outflows of resources as of June 30: | | |
| Loss on defeasance of bonds payable | $ 12,361 | $ 12,962 |
| Deferred outflows of resources - employee benefit plan contribution | 3,300 | 6,400 |
| Deferred outflows of resources - goodwill | 3,232 | 1,036 |
| Deferred outflows - actuarial, employee benefit plan | 1,244 | 10,392 |
| Deferred outflows - actuarial, post-retirement medical benefit | 617 | 154 |
| Total | $ 20,754 | $ 30,944 |
| Deferred inflows of resources as of June 30: | | |
| Deferred inflows of resources - charitable remainder unitrusts | $ 3,893 | $ 3,893 |
| Deferred inflows - actuarial, employee benefit plan | 26,456 | 8,504 |
| Deferred inflows - actuarial, post-retirement medical benefit | 350 | 871 |
| Total | $ 30,699 | $ 13,268 |

**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 statutory 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 |
|---|---|---|---|---|---|
| 2020 | $ 20,732 | $ 893 | $ 2,843 | $ 18,782 | $ 2,300 |

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| 2019 | $ 20,263 | $ 2,670 | $ 2,201 | $ 20,732 | $ 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 |
|---|---|---|---|---|---|
| 2020 | $ 26,502 | $ 51,435 | $ 49,813 | $ 28,124 | $ 28,124 |

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| 2019 | $ 24,783 | $ 49,603 | $ 47,884 | $ 26,502 | $ 26,502 |

**Medicare accelerated payments and CARES Act grant** – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Management has not yet determined the full financial impact of these events. Centers for Medicare and Medicaid Services ("CMS") distributed $50 billion of the $100 billion in the form of grants to hospitals. The Hospital received approximately $19.0 million in grants, included as "other, net" (nonoperating revenue) in the consolidated statement of revenues, expenses and changes in net position, and will have to submit reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions. On September 19, 2020, the Department of Health and Human Services (HHS) released updated information for health care providers that received Provider Relief Fund (PRF) payments, which may impact the recognition of the payments and the available uses for the funds. Management believes that these changes will not have a material impact to the financial statements as of and for the year ended June 30, 2020

Separately, CMS initiated an Accelerated Payment Program to hospitals. The Accelerated Payments represent advance payments for services to be provided and were based on a hospital's historical Medicare volume. In April 2020, the Hospital received approximately $75.08 million in Accelerated Payments, included in Medicare accelerated payments in the consolidated statement of financial position. Medicare payments for services rendered will continue for the next 120 days. 120 days after receipt, CMS will recoup the Accelerated Payments from billing for services rendered until they are fully repaid. Any Accelerated Payments still open after one year from receipt will be charged interest at 10%. On October 8, 2020, the Center for Medicare and Medicaid Services (CMS) released updated fact sheet relating to the repayment terms for certain Medicare accelerated payments, which may impact on the classification of these payments in the consolidated statement of financial position as of June 30, 2020.

**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 $595,488,000 and $565,721,000 at June 30, 2020 and 2019, 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 is as follows:

| | June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Medicare | 14% | 15% |
| Medi-Cal | 2% | 3% |
| Commercial and other | 83% | 81% |
| Self pay | 1% | 1% |
| | 100% | 100% |

**Provision for 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 $672,000 and $378,000 for the years ended June 30, 2020 and 2019, respectively.

**Property tax revenue** – The District received approximately 23% in 2020 and 16% in 2019 of its total increase in net position from property taxes. These funds were designated as follows (in thousands):

| | June 30, 2020 | | June 30, 2019 | |
|---|---|---|---|---|
| Designated to support community benefit programs and operating expenses | $ | 9,170 | $ | 8,697 |
| Designated to support capital expenditures | $ | 9,706 | $ | 8,989 |
| Levied for debt service | $ | 10,493 | $ | 9,989 |

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.

**New accounting pronouncements** – 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 District adopted GASB No. 88 in the year ended June 30, 2020. The adoption did not result in a material impact to the District's consolidated financial statements.

The GASB issued Statement No 84, *Fiduciary Activities* (“GASB No. 84”), which provides improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (“GASB No. 95”), which extended the effective date for GASB No. 84 to reporting periods 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. 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. GASB No. 95 extended the effective date for GASB No. 87 to reporting periods beginning July 1, 2021. 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. GASB No. 95 extended the effective date for GASB No. 89 to reporting periods beginning July 1, 2021. The District is currently assessing the impact of this standard on the District’s consolidated financial statements.

The GASB also issued GASB Statement No. 91, *Conduit Debt Obligation*, (“GASB No. 91”). GASB No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB No. 95 extended the effective date for GASB No. 91 to reporting periods beginning July 1, 2022. The District is currently assessing the impact of this standard on the District’s consolidated financial statements.

The GASB also issued Statement No. 93, *Replacement of Interbank Offered Rates,* (“GASB No. 93”). GASB No. 93 establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (“LIBOR”) for hedging derivative instruments. As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form after December 31, 2021. The requirements of this statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. GASB No. 95 extended the effective date for paragraphs 13 and 14 to fiscal years beginning after June 15, 2021. The District is currently assessing the impact of this standard on the District’s consolidated financial statements.

**NOTE 2 – OPERATING REVENUES**

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

| | 2020 | 2019 |
|---|---|---|
| Medicare (including Medicare HMO) | 27% | 27% |
| Commercial and other | 70% | 69% |
| Medi-Cal (including Medi-Cal HMO) | 3% | 4% |
| | 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 increase 2020 income from operations by $2,068,000, and increase 2019 income from operations by $325,000. The Hospital’s cost reports have been audited by the Medicare fiscal intermediary through June 30, 2016.

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, 2020 and 2019, the Hospital recognized amounts under the IGT program of $9,615,000 and $15,761,000, 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.

Other revenue for the year ended June 30, consisted of the following:

| | 2020 | 2019 |
|---|---|---|
| Rental income | $ 13,242 | $ 14,150 |
| Prime IGT | 5,244 | 4,454 |
| SVMD other revenue | 14,095 | 2,537 |
| Concern & SVMD capitated revenue | 11,565 | 10,344 |
| Other operating revenue | 4,294 | 13,579 |
| | $ 48,440 | $ 45,064 |

**NOTE 3 – CASH DEPOSITS**

At June 30, 2020 and 2019, District cash deposits had carrying amounts of $235,381,000 and $131,362,000, respectively, and bank balances of $242,759,000 and $141,006,000, 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 participated 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, 2020, balances in repurchase agreements had bank balances of $218,853,000, and was included in the carrying amounts above.

During fiscal year 2019, El Camino transitioned from a cash management program that previously swept excess cash over-night, to a program where the funds remain in the depositors account and the bank pays interest on an average daily balance. Since the implementation of this new program the hospital has experience greater returns compared to the previous program.

## 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, 2020 and 2019, comprised the following (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Carrying Value |
|---|---|---|---|---|
| **2020** | | | | |
| Cash and cash equivalents | $ 104,578 | $ 2 | $ (2) | $ 104,578 |
| Mutual funds | 282,569 | 109,503 | (13,980) | 378,092 |
| Real estate funds | 26,302 | 2,815 | - | 29,117 |
| Hedge funds | 147,707 | 16,899 | (6,370) | 158,236 |
| Equities | 35,062 | 6,350 | (3,047) | 38,365 |
| Fixed income securities | 446,802 | 22,975 | (2,971) | 466,806 |
| | $ 1,043,020 | $ 158,544 | $ (26,370) | $ 1,175,194 |
| **2019** | | | | |
| Cash and cash equivalents | $ 101,833 | $ 100 | $ (331) | $ 101,602 |
| Mutual funds | 283,857 | 97,473 | (9,495) | 371,835 |
| Real estate funds | 34,933 | 8,685 | - | 43,618 |
| Hedge funds | 127,779 | 24,343 | (752) | 151,370 |
| Equities | 35,869 | 8,839 | (2,488) | 42,220 |
| Fixed income securities | 455,167 | 14,625 | (1,199) | 468,593 |
| | $ 1,039,438 | $ 154,065 | $ (14,265) | $ 1,179,238 |

At June 30, 2020, 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 | $ 105,885 | $ 105,885 | $ - | $ - | $ - |
| Government and agencies | 213,760 | 17,446 | 66,665 | 8,379 | 121,270 |
| Corporate bonds | 196,925 | 20,720 | 95,372 | 21,120 | 59,713 |
| Domestic fixed income | 54,814 | 20,085 | 12,431 | 12,197 | 10,101 |
| | 571,384 | $ 164,136 | $ 174,468 | $ 41,696 | $ 191,084 |
| Equities | 38,365 | | | | |
| Mutual funds | 378,092 | | | | |
| Real estate funds | 29,117 | | | | |
| Hedge funds | 158,236 | | | | |
| Total | $ 1,175,194 | | | | |

At June 30, 2019, 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 | $ 100,504 | $ 100,504 | $ - | $ - | $ - |
| Government and agencies | 276,922 | 7,277 | 107,589 | 23,273 | 138,783 |
| Corporate bonds | 165,741 | 22,721 | 93,943 | 20,292 | 28,785 |
| Domestic fixed income | 27,028 | 1,654 | 8,845 | 12,375 | 4,154 |
| | 570,195 | $ 132,156 | $ 210,377 | $ 55,940 | $ 171,722 |
| Equities | 42,220 | | | | |
| Mutual funds | 371,835 | | | | |
| Real estate funds | 43,618 | | | | |
| Hedge funds | 151,370 | | | | |
| Total | $ 1,179,238 | | | | |

**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):

| | 2020 | 2019 |
|---|---|---|
| Included in the following consolidated statement of net position captions: | | |
| Short-term investments | $ 225,840 | $ 262,157 |
| Current portion of board designated and funds held by trustee | 26,495 | 23,778 |
| Board designated, funds held by trustee, and restricted funds, less current portion | 922,859 | 893,303 |
| Total carrying amount of deposits and investments | $ 1,175,194 | $ 1,179,238 |

**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.

**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, 2020 and 2019, 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 manager’s net asset values, as determined by the fund administrator and subsequently audited by an external third party. The administrator has 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 financial instruments 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 | 2020 |
|---|---|---|---|---|
| Investments by fair value level | | | | |
| Asset backed securities | | | | |
| Corporate backed obligations | $ - | $ 14,989 | $ - | $ 14,989 |
| Mortgage backed obligations | - | 35,003 | - | 35,003 |
| US Government Mortgage Pool | - | 80,416 | - | 80,416 |
| Common stock | | | | |
| ADR & U.S. foreign stock | - | 3,444 | - | 3,444 |
| Customer discretionary | 6,982 | - | - | 6,982 |
| Energy | 3,225 | - | - | 3,225 |
| Financial services industry | 7,721 | - | - | 7,721 |
| Healthcare industry | 2,877 | - | - | 2,877 |
| Information Technology | 3,529 | - | - | 3,529 |
| Telecommunication services | 4,608 | - | - | 4,608 |
| Other | 7,287 | - | - | 7,287 |
| Corporate, municipal and foreign bonds | | | | |
| Corporate bonds | - | 181,936 | - | 181,936 |
| Private placements | - | 35,928 | - | 35,928 |
| Municipal taxable | - | 5,017 | - | 5,017 |
| Mutual funds | | | | |
| Mutual funds - equity | 378,092 | - | - | 378,092 |
| Mutual funds - taxable | 18,886 | - | - | 18,886 |
| U.S. Government securities | | | | |
| Government agencies | - | - | - | - |
| U.S. treasury notes and bonds | 93,324 | - | - | 93,324 |
| Limited Partnership Interests | - | - | 22,778 | 22,778 |
| Total investments by fair value level | $ 526,531 | $ 356,733 | $ 22,778 | 906,042 |
| Cash equivalents | | | | 104,781 |
| Investments measured at NAV | | | | |
| Pooled, common & collective trusts | | | | 18,117 |
| Equity hedge funds | | | | 63,696 |
| Credit hedge funds | | | | 15,667 |
| Macro hedge funds | | | | 20,411 |
| Relative value hedge funds | | | | 43,834 |
| Fixed income limited partnership | | | | 2,646 |
| Total investments measured at NAV | | | | 164,371 |
| Total investments | | | | $ 1,175,194 |
| Beneficial interest in charitable remainder unitrusts | $ - | $ - | $ 3,893 | $ 3,893 |
| Interest rate swap | $ - | $ (10,862) | $ - | $ (10,862) |

| Description | Level 1 | Level 2 | Level 3 | 2019 |
|---|---|---|---|---|
| Investments by fair value level | | | | |
| Asset backed securities | | | | |
| Corporate backed obligations | $ - | $ 46,702 | $ - | $ 46,702 |
| Mortgage backed obligations | - | 34,075 | - | 34,075 |
| US Government Mortgage Pool | - | 90,315 | - | 90,315 |
| Common stock | | | | |
| ADR & U.S. foreign stock | - | 4,902 | - | 4,902 |
| Energy | 4,609 | - | - | 4,609 |
| Financial services industry | 8,377 | - | - | 8,377 |
| Healthcare industry | 2,207 | - | - | 2,207 |
| Information Technology | 4,053 | - | - | 4,053 |
| Telecommunication services | 655 | - | - | 655 |
| Other | 17,444 | - | - | 17,444 |
| Corporate, municipal and foreign bonds | | | | |
| Corporate bonds | - | 164,278 | - | 164,278 |
| Private placements | - | 27,028 | - | 27,028 |
| Municipal taxable | - | 3,361 | - | 3,361 |
| Mutual funds | | | | |
| Mutual funds - equity | 355,392 | - | - | 355,392 |
| Mutual funds - taxable | 17,133 | - | - | 17,133 |
| U.S. Government securities | | | | |
| Government agencies | 1,463 | - | - | 1,463 |
| U.S. treasury notes and bonds | 102,468 | - | - | 102,468 |
| Limited Partnership Interests | - | - | 22,320 | 22,320 |
| Total investments by fair value level | $ 513,801 | $ 370,661 | $ 22,320 | 906,782 |
| Cash equivalents | | | | 102,725 |
| Investments measured at NAV | | | | |
| Pooled, common & collective trusts | | | | 23,460 |
| Equity hedge funds | | | | 51,565 |
| Credit hedge funds | | | | 21,229 |
| Macro hedge funds | | | | 41,310 |
| Relative value hedge funds | | | | 30,815 |
| Fixed income limited partnership | | | | 1,352 |
| Total investments measured at NAV | | | | 169,731 |
| Total investments | | | | $ 1,179,238 |
| Beneficial interest in charitable remainder unitrusts | $ - | $ - | $ 3,893 | $ 3,893 |
| Interest rate swap | $ - | $ (7,550) | $ - | $ (7,550) |

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

| | 2020 Fair Value | 2019 Fair Value | Unfunded Commitment | Redemption Frequency | Redemption Notice |
|---|---|---|---|---|---|
| Pooled, common & collective trusts | $ 18,117 | $ 23,460 | $ - | Monthly | 30 days |
| Equity hedge funds | 63,696 | 51,565 | - | Quarterly | 90 days |
| Credit hedge funds | 15,667 | 21,229 | - | Monthly, Quarterly | 15 - 60 days |
| Macro hedge funds | 20,411 | 41,310 | - | Monthly, Quarterly | 5 - 90 days |
| Relative value hedge funds | 43,834 | 30,815 | - | Quarterly, Annually | 45 days |
| Fixed income limited partnership | 2,646 | 1,352 | - | Monthly | 1 day |
| Total investments measured at NAV | $ 164,371 | $ 169,731 | $ - | | |
| Limited Partnership Interests | $ 22,778 | $ 22,320 | $ 29,531 | 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 seven hedge funds that employ both long and short strategies primarily in 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 two 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. All 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 two 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 six 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 less than 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.

*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, 2020, is as follows (in thousands):

| | Balance June 30, 2019 | Increases | Decreases | Balance June 30, 2020 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 92,904 | $ - | $ - | $ 92,904 |
| Construction in progress | 391,005 | 98,843 | - | 489,848 |
| | 483,909 | 98,843 | - | 582,752 |
| Capital assets being depreciated | | | | |
| Land improvement | 15,768 | - | - | 15,768 |
| Buildings | 836,052 | 14,704 | - | 850,756 |
| Capital equipment | 389,595 | 9,997 | 345 | 399,247 |
| | 1,241,415 | 24,701 | 345 | 1,265,771 |
| Less accumulated depreciation for | | | | |
| Land improvement | 10,639 | 1,252 | - | 11,891 |
| Buildings | 332,947 | 26,036 | - | 358,983 |
| Capital equipment | 285,245 | 26,750 | 382 | 311,613 |
| | 628,831 | 54,038 | 382 | 682,487 |
| Total capital assets being depreciated, net | 612,584 | (29,337) | (37) | 583,284 |
| Total capital assets, net | $ 1,096,493 | $ 69,506 | $ (37) | $ 1,166,036 |

Capital assets activity for the year ended June 30, 2019, is as follows (in thousands):

| | Balance June 30, 2018 | Increases | Decreases | Balance June 30, 2019 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 84,807 | $ 8,097 | $ - | $ 92,904 |
| Construction in progress | 220,990 | 170,015 | - | 391,005 |
| | 305,797 | 178,112 | - | 483,909 |
| Capital assets being depreciated | | | | |
| Land improvement | 15,731 | 37 | - | 15,768 |
| Buildings | 820,273 | 15,779 | - | 836,052 |
| Capital equipment | 363,861 | 34,878 | 9,144 | 389,595 |
| | 1,199,865 | 50,694 | 9,144 | 1,241,415 |
| Less accumulated depreciation for | | | | |
| Land improvement | 9,821 | 818 | - | 10,639 |
| Buildings | 306,021 | 26,926 | - | 332,947 |
| Capital equipment | 269,620 | 24,693 | 9,068 | 285,245 |
| | 585,462 | 52,437 | 9,068 | 628,831 |
| Total capital assets being depreciated, net | 614,403 | (1,743) | 76 | 612,584 |
| Total capital assets, net | $ 920,200 | $ 176,369 | $ 76 | $ 1,096,493 |

Construction contracts of approximately $596,000,000 was approved for various projects, including 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, 2020, the remaining commitment on these contracts approximated $83,000,000.

Capitalized interest was $7,528,000 and $15,227,000 for the years ended June 30, 2020 and 2019, 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 ten-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:

| | 2020 | 2019 |
|---|---|---|
| Active | 2,824 | 2,735 |
| Retirees and beneficiaries | 592 | 559 |
| Vested terminated | 973 | 989 |
| Total participants | 4,389 | 4,283 |

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):

| | 2020 | 2019 |
|---|---|---|
| Deferred outflows of resources as of June 30: | | |
| Difference between expected and actual experience | $ 1,244 | $ 1,669 |
| Changes in assumptions | - | 149 |
| Difference between projected and actual investment earnings | - | 8,574 |
| Total | $ 1,244 | $ 10,392 |
| Deferred inflows of resources as of June 30: | | |
| Difference between expected and actual experience | $ (2,834) | $ (2,636) |
| Changes in assumptions | (4,885) | (5,868) |
| Difference between projected and actual investment earnings | (18,737) | - |
| Total | $ (26,456) | $ (8,504) |
| Contributions between the measurement date and fiscal year end recognized as a deferred outflow of resources | $ 3,300 | $ 6,400 |

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

| | |
|---|---|
| 2021 | $ (7,483) |
| 2022 | (7,349) |
| 2023 | (3,205) |
| 2024 | (6,650) |
| 2025 | (307) |
| Thereafter | (218) |
| | $ (25,212) |

The following table summarizes changes in pension liability for fiscal years ended June 30, 2020 and 2019, with a measurement date of December 31, 2019 and 2018, respectively, (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Service cost | $ 9,675 | $ 8,891 |
| Interest | 12,744 | 12,304 |
| Differences between expected and actual experience | (1,095) | (439) |
| Changes of assumptions | (652) | (9) |
| Benefit payments | (14,687) | (13,724) |
| Net change in total pension liability | 5,985 | 7,023 |
| Total pension liability beginning of fiscal year | 209,955 | 202,932 |
| Total pension liability end of fiscal year | $ 215,940 | $ 209,955 |

| | 2020 with Measurement Date of December 31, 2019 | 2019 with Measurement Date of December 31, 2018 |
|---|---|---|
| Total pension liability | $ 215,940 | $ 209,955 |
| Plan fiduciary net position | 294,555 | 250,717 |
| Net pension asset | $ (78,615) | $ (40,762) |
| Plan's fiduciary net position as a percentage of total pension liability | 136.41% | 119.41% |
| Covered payroll | $ 335,696 | $ 315,317 |
| Net pension asset as a percentage of covered payroll | -23.42% | -12.93% |
| Contributions between the measurement date and year ended June 30, as deferred outflow of resources | $ 3,300 | $ 6,400 |

The following table summarizes the actuarial assumptions used to determine net pension asset and plan fiduciary net position as of June 30, 2020 and 2019:

| | |
|---|---|
| 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 No. 68 |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions | |
| Projected Salary Increases | 4.00% |
| Mortality | Based on the Pri-2012 Total Employee and Retiree Mortality Tables (base year 2012) and projected with Mortality Improvement Scale MP-2019, except for current and future beneficiaries of deceased participants. For current and future beneficiaries of deceased participants, mortality is based on the Pri-2012 Contingent Survivor Mortality Tables and projected with Mortality Improvement Scale MP-2019. |
| 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, 2019 | $ (57,180) | $ (78,615) | $ (97,090) |
| Net pension asset as of December 31, 2018 | $ (19,889) | $ (40,762) | $ (58,731) |

The following table summarizes target asset class for the plan fiduciary net position as of June 30, 2020 and 2019:

| 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 $11,983,000 and $11,529,000 in 2020 and 2019, 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 December 31, 2019 and 2018, 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, the following employees were covered by the Hospital:

| | 2020 | 2019 |
|---|---|---|
| Active | 250 | 318 |
| Inactive plan members or beneficiaries currently receiving benefits | 327 | 284 |
| Inactive plan members entitled to but not yet receiving benefits | - | - |
| Total participants | 577 | 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:

| | 2020 | 2019 |
|---|---|---|
| Service cost | $ 254 | $ 273 |
| Interest | 874 | 911 |
| Differences between expected and actual experience | (66) | (141) |
| Changes of assumptions | 531 | 83 |
| Current period recognition of prior years' deferred inflows and outflows of resources | (506) | (447) |
| Total post-retirement medical benefits expense | $ 1,087 | $ 679 |

| | 2020 | 2019 |
|---|---|---|
| Deferred outflows of resources as of June 30: | | |
| Changes in benefit terms | $ - | $ - |
| Difference between expected and actual experience | - | - |
| Changes in assumptions | 617 | 154 |
| Total | $ 617 | $ 154 |
| Deferred inflows of resources as of June 30: | | |
| Changes in benefit terms | $ - | $ - |
| Difference between expected and actual experience | (189) | - |
| Changes in assumptions | (161) | (871) |
| Total | $ (350) | $ (871) |

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):

| | |
|---|---|
| 2021 | $ 253 |
| 2022 | 14 |
| 2023 | - |
| 2024 | - |
| 2025 | - |
| Thereafter | - |
| | $ 267 |

The following table summarizes changes in post-retirement medical benefits liability for fiscal year ended June 30, 2020 and 2019, with a measurement date of July 1, 2019 and 2018, respectively (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Service cost | $ 254 | $ 273 |
| Interest | 874 | 911 |
| Differences between expected and actual experience | (133) | (404) |
| Changes in assumptions or other input | 1,076 | 236 |
| Benefit payments | (821) | (748) |
| Net changes | 1,250 | 268 |
| Net post-retirement medical benefits liability at beginning of year | 29,480 | 29,212 |
| Net post-retirement medical benefits liability at end of year | $ 30,730 | $ 29,480 |

The following table summarizes the actuarial assumptions used to determine net post-retirement medical benefits as of June 30, 2020 and 2019:

| | |
|---|---|
| Valuation Date | June 30, 2019; measurement date of June 30, 2019 |
| 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-2018. |
| Discount Rate | 2.79% |
| Healthcare cost trend rates: | 8% for 2019, 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 as of June 30:

| | 2020 | | |
|---|---|---|---|
| | 1% Decrease 1.79% | Current Discount Rate 2.79% | 1% Increase 3.79% |
| Net post-retirement medical benefits liability | $ 34,587 | $ 30,730 | $ 27,492 |

| | 2019 | | |
|---|---|---|---|
| | 1% Decrease 1.98% | Current Discount Rate 2.98% | 1% Increase 3.98% |
| Net post-retirement medical benefits liability | $ 33,182 | $ 29,480 | $ 26,368 |

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

| | 1% Decrease | Current Trend rate | 1% Increase |
|---|---|---|---|
| June 30, 2020 | $ 30,234 | $ 30,730 | $ 31,328 |
| June 30, 2019 | $ 28,917 | $ 29,480 | $ 30,145 |

## 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, 2020 | June 30, 2019 |
|---|---|---|
| El Camino Hospital District | | |
| 2006 General Obligation Bonds | | |
| Principal | $ 32,335 | $ 32,335 |
| Unamortized premium | 341 | 495 |
| 2017 General Obligation Bonds | | |
| Principal | 88,355 | 92,155 |
| Unamortized premium | 361 | 702 |
| El Camino Hospital Revenue Bonds | | |
| Series 2009 | | |
| Principal | 50,000 | 50,000 |
| Series 2015A | | |
| Principal | 139,795 | 143,760 |
| Unamortized premium | 9,416 | 10,896 |
| Series 2017A | | |
| Principal | 287,770 | 292,435 |
| Unamortized premium | 13,000 | 15,095 |
| Total long-term debt | 621,373 | 637,873 |
| Less current maturities | 13,420 | 12,430 |
| Maturities due after one year | $ 607,953 | $ 625,443 |

| 2020 | Balance at June 30, 2019 | Increases | Decreases | Balance at June 30, 2020 |
|---|---|---|---|---|
| General obligation bonds | $ 125,687 | $ - | $ 4,295 | $ 121,392 |
| Revenue bonds | 512,186 | - | 12,205 | 499,981 |
| | $ 637,873 | $ - | $ 16,500 | $ 621,373 |

| 2019 | Balance at June 30, 2018 | Increases | Decreases | Balance at June 30, 2019 |
|---|---|---|---|---|
| General obligation bonds | $ 129,642 | $ - | $ 3,955 | $ 125,687 |
| Revenue bonds | 519,753 | - | 7,567 | 512,186 |
| | $ 649,395 | $ - | $ 11,522 | $ 637,873 |

**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 2022 and requires the Hospital to maintain a long-term debt service coverage ratio of 1.20 to 1.00.

Management believes all financial debt covenants were met for the years ended June 30, 2020 and 2019.

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

| Year Ending | General Obligation Bonds | | Revenue Bonds | |
|---|---|---|---|---|
| June 30, | Principal | Interest | Principal | Interest |
| 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 | 3,293 | 6,343 | 10,400 | 18,936 |
| 2025 | 3,398 | 6,788 | 10,920 | 18,415 |
| 2026-2030 | 17,977 | 41,017 | 63,290 | 83,452 |
| 2031-2035 | 47,382 | 27,614 | 80,185 | 67,021 |
| 2036-2040 | 33,430 | 2,036 | 66,470 | 46,961 |
| 2041-2045 | - | - | 116,880 | 26,129 |
| 2046-2050 | - | - | 101,065 | 4,128 |
| | $ 120,690 | $ 93,984 | $ 477,565 | $ 324,687 |

**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 $10,862,000 at June 30, 2020, and $7,550,000 at June 30, 2019, 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):

| | 2020 | 2019 |
|---|---|---|
| Charity and other | $ 20,606 | $ 16,759 |
| Endowments | 7,373 | 6,806 |
| Restricted by donor for specific uses | 27,979 | 23,565 |
| Restricted by Department of Managed Health Care | 650 | 650 |
| Total restricted net position | $ 28,629 | $ 24,215 |

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

## 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 No. 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 No. 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 2020 and June 2019 of 2.4% and 2.8% 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, 2020 and 2019, the Foundation has a payable to the Hospital in the amount of $595,000 and $248,000, respectively. During the fiscal years 2020 and 2019, the Foundation paid the Hospital $3,522,000 and $2,292,000 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, benefits, and rent for a maximum of $1,783,000 annually on an ongoing basis. All related party transactions are eliminated upon consolidation.

As of June 30, 2020 and 2019, CONCERN has a payable to the Hospital in the amount of $3,603,000 and $1,002,000, respectively. During the fiscal years ended June 30, 2020 and 2019, CONCERN paid the Hospital $5,786,000 and $9,228,000 for these expenses, respectively. All related party transactions are eliminated upon consolidation.

As of June 30, 2020 and 2019, SVMD has a payable to the Hospital of $43,664,000 and $6,139,000, respectively. During fiscal years ended June 30, 2020 and 2019, SVMD paid the Hospital $14,945,000 and $17,184,000 for its 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 $64,000 of rental income recorded for the year ended June 30, 2020, and $1,107,000 of rental income recorded for the year ended June 30, 2019, 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, 2020 (in thousands):

| | Operating Lease Commitments | Lease Income | Net Lease Benefit (Expense) |
|---|---|---|---|
| 2021 | $ 7,584 | $ 12,296 | $ 4,712 |
| 2022 | 6,685 | 9,768 | 3,083 |
| 2023 | 3,676 | 8,329 | 4,653 |
| 2024 | 3,573 | 6,488 | 2,915 |
| 2025 | 3,460 | 3,211 | (249) |
| Thereafter | 23,471 | 11,691 | (11,780) |
| | $ 48,449 | $ 51,783 | $ 3,334 |

Total rental expense in 2020 and 2019 for all operating leases was approximately $11,004,000 and $6,510,000, 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.

**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. During 2015, all required seismic upgrades were made to the Los Gatos site for seismic compliance up to 2030.

**Collective bargaining agreement** – Approximately 78.5% of the Hospital's employees are covered by collective bargaining agreements. These employees are members of 3 unions.

## NOTE 15 – 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.

# Supplementary Information

# El Camino Healthcare District
## Consolidating Statement of Net Position
## June 30, 2020
## (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 | $ 5,443 | $ 215,186 | $ 2,511 | $ 1,156 | $ 1,616 | $ 9,469 | $ - | $ 235,381 |
| Short-term investments | 5,710 | 204,535 | 1,277 | 14,318 | - | - | - | 225,840 |
| Current portion of board designated funds | 26,495 | - | - | - | - | - | - | 26,495 |
| Patient accounts receivable, net of allowances for doubtful accounts of $60,439 | - | 121,208 | - | 582 | - | 7,695 | - | 129,485 |
| Prepaid expenses and other current assets | 298 | 76,651 | 1,312 | 1,761 | - | 28,895 | (72,453) | 36,464 |
| Total current assets | 37,946 | 617,580 | 5,100 | 17,817 | 1,616 | 46,059 | (72,453) | 653,665 |
| Non-current cash and investments | | | | | | | | |
| Board-designated funds | 9,590 | 822,721 | 39,073 | - | - | - | - | 871,384 |
| Restricted funds | - | - | - | 650 | - | - | - | 650 |
| Funds held by trustee | 27,347 | 23,478 | - | - | - | - | - | 50,825 |
| | 36,937 | 846,199 | 39,073 | 650 | - | - | - | 922,859 |
| Capital assets | | | | | | | | |
| Nondepreciable | 10,585 | 572,167 | - | - | - | - | - | 582,752 |
| Depreciable, net | 125 | 574,849 | 61 | 1,568 | - | 6,681 | - | 583,284 |
| Total capital assets | 10,710 | 1,147,016 | 61 | 1,568 | - | 6,681 | - | 1,166,036 |
| Pledges receivable, net of current portion | - | - | 4,402 | - | - | - | - | 4,402 |
| Prepaid pension asset | - | 78,615 | - | - | - | - | - | 78,615 |
| Investments in healthcare affiliates | - | 29,065 | - | - | - | - | (1,616) | 27,449 |
| Beneficial interest in charitable remainder unitrust | - | - | 3,893 | - | - | - | - | 3,893 |
| Total assets | 85,593 | 2,718,475 | 52,529 | 20,035 | 1,616 | 52,740 | (74,069) | 2,856,919 |
| Deferred outflows of resources | | | | | | | | |
| Loss on defeasance of bonds payable | - | 12,361 | - | - | - | - | - | 12,361 |
| Deferred outflows of resources | - | 5,705 | - | - | - | 827 | - | 6,532 |
| Deferred outflows - actuarial | - | 1,861 | - | - | - | - | - | 1,861 |
| Total deferred outflows of resources | - | 19,927 | - | - | - | 827 | - | 20,754 |
| Total assets and deferred outflows of resources | $ 85,593 | $ 2,738,402 | $ 52,529 | $ 20,035 | $ 1,616 | $ 53,567 | $ (74,069) | $ 2,877,673 |

# El Camino Healthcare District
## Consolidating Statement of Net Position
## June 30, 2020
## (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 | $ 1,374 | $ 55,025 | $ 721 | $ 3,896 | $ - | $ 46,033 | (71,584) | $ 35,465 |
| Salaries, wages, and related liabilities | - | 61,829 | - | 530 | - | 974 | - | 63,333 |
| Medicare accelerated payments | - | 75,076 | - | - | - | - | - | 75,076 |
| Other current liabilities | 1,563 | 16,736 | 472 | 246 | - | 4,148 | - | 23,165 |
| Estimated third-party payor settlements | - | 10,956 | - | - | - | - | - | 10,956 |
| Current portion of bonds payable | 4,400 | 9,020 | - | - | - | - | - | 13,420 |
| Total current liabilities | 7,337 | 228,642 | 1,193 | 4,672 | - | 51,155 | (71,584) | 221,415 |
| Bonds payable, net of current portion | 116,992 | 490,961 | - | - | - | - | - | 607,953 |
| Other long-term obligations | - | 22,674 | - | - | - | - | - | 22,674 |
| Workers' compensation, net of current portion | - | 16,482 | - | - | - | - | - | 16,482 |
| Post-retirement medical benefits, net of current portion | - | 30,730 | - | - | - | - | - | 30,730 |
| Total liabilities | 124,329 | 789,489 | 1,193 | 4,672 | - | 51,155 | (71,584) | 899,254 |
| Deferred inflows of resources | | | | | | | | |
| Deferred inflows of resources | - | - | 3,893 | - | - | - | - | 3,893 |
| Deferred inflows of resources - actuarial | - | 26,806 | - | - | - | - | - | 26,806 |
| Total deferred inflows of resources | - | 26,806 | 3,893 | - | - | - | - | 30,699 |
| Net position | | | | | | | | |
| Invested in capital assets, net of related debt | (83,335) | 670,513 | 61 | 1,568 | - | 6,681 | - | 595,488 |
| Restricted - expendable | - | - | 20,606 | - | - | - | - | 20,606 |
| Restricted - nonexpendable | - | - | 7,373 | 650 | - | - | - | 8,023 |
| Unrestricted | 44,599 | 1,251,594 | 19,403 | 13,145 | 1,616 | (4,269) | (2,485) | 1,323,603 |
| Total net position | (38,736) | 1,922,107 | 47,443 | 15,363 | 1,616 | 2,412 | (2,485) | 1,947,720 |
| Total liabilities, deferred inflows of resources, and net position | $ 85,593 | $ 2,738,402 | $ 52,529 | $ 20,035 | $ 1,616 | $ 53,567 | $ (74,069) | $ 2,877,673 |

# El Camino Healthcare District
## Consolidating Statement of Revenues, Expenses, and Changes in Net Position
## For the Year Ended June 30, 2020
## (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 $15,925) | $ - | $ 957,374 | $ - | $ - | $ - | $ 25,323 | $ - | $ 982,697 |
| Other revenue | 91 | 24,554 | - | 8,244 | - | 19,850 | (4,299) | 48,440 |
| Total operating revenues | 91 | 981,928 | - | 8,244 | - | 45,173 | (4,299) | 1,031,137 |
| Operating expenses | | | | | | | | |
| Salaries, wages and benefits | - | 516,913 | 1,490 | 2,639 | - | 19,967 | - | 541,009 |
| Professional fees and purchased services | 643 | 119,891 | 338 | 3,448 | 74 | 49,862 | (3,262) | 170,994 |
| Supplies | - | 147,357 | 80 | 16.00 | - | 5,013 | - | 152,466 |
| Depreciation | 57 | 51,923 | 13 | 25 | - | 2,020 | - | 54,038 |
| Rent and utilities | - | 19,153 | 134 | 399 | - | 7,263 | (134) | 26,815 |
| Other | - | 20,487 | 100 | 176 | - | 1,404 | - | 22,167 |
| Total operating expenses | 700 | 875,724 | 2,155 | 6,703 | 74 | 85,529 | (3,396) | 967,489 |
| (Loss) income from operations | (609) | 106,204 | (2,155) | 1,541 | (74) | (40,356) | (903) | 63,648 |
| Nonoperating revenues (expenses): | | | | | | | | |
| Investment income, net | 1,799 | 37,536 | 324 | 1,190 | 5 | - | - | 40,854 |
| Property tax revenue | | | | | | | | |
| Designated for community benefit programs and operating expenses | 9,170 | - | - | - | - | - | - | 9,170 |
| Designated for capital expenditures | 9,706 | - | - | - | - | - | - | 9,706 |
| Levied for debt service | 10,493 | - | - | - | - | - | - | 10,493 |
| Bond interest expense, net | (2,829) | (10,050) | - | - | - | - | - | (12,879) |
| Intergovernmental transfer expense | (4,048) | - | - | - | - | - | - | (4,048) |
| Restricted gifts, grants and bequests, and other, net of contributions to related parties | - | - | 10,195 | - | - | - | (1,783) | 8,412 |
| Unrealized loss on interest rate swap | - | (3,366) | - | - | - | - | - | (3,366) |
| Community benefit expense | (7,544) | (3,618) | - | (1,832) | - | - | 903 | (12,091) |
| Other, net | - | 11,665 | - | - | (364) | 514 | 8,087 | 19,902 |
| Total nonoperating revenues (expenses) | 16,747 | 32,167 | 10,519 | (642) | (359) | 514 | 7,207 | 66,153 |
| Excess (deficit) of revenues over expenses before capital transfers | 16,138 | 138,371 | 8,364 | 899 | (433) | (39,842) | 6,304 | 129,801 |
| Capital transfers | (6,864) | (21,174) | (3,139) | (823) | - | 32,000 | - | - |
| Increase (decrease) in net position | 9,274 | 117,197 | 5,225 | 76 | (433) | (7,842) | 6,304 | 129,801 |
| Total net (deficit) position, beginning of year | (48,010) | 1,804,910 | 42,218 | 15,287 | 2,049 | 10,254 | (8,789) | 1,817,919 |
| Total net (deficit) position, end of year | $ (38,736) | $ 1,922,107 | $ 47,443 | $ 15,363 | $ 1,616 | $ 2,412 | $ (2,485) | $ 1,947,720 |

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

| | 2020 | 2019 |
|---|---|---|
| Service cost | $ 9,675 | $ 8,891 |
| Interest | 12,744 | 12,304 |
| Differences between expected and actual experience | (1,095) | (439) |
| Changes of assumptions | (652) | (9) |
| Benefit payments | (14,687) | (13,724) |
| Net change in total pension liability | 5,985 | 7,023 |
| Total pension liability beginning of fiscal year | 209,955 | 202,932 |
| Total pension liability end of fiscal year | $ 215,940 | $ 209,955 |

| | 2020 | 2019 |
|---|---|---|
| Contributions | $ 12,900 | $ 11,600 |
| Net investment income | 45,625 | (7,175) |
| Benefit payments, including refunds of member contributions | (14,687) | (13,724) |
| Net change in Plan fiduciary net position | 43,838 | (9,299) |
| Plan fiduciary net position beginning of fiscal year | 250,717 | 260,016 |
| Plan fiduciary net position end of fiscal year | 294,555 | 250,717 |
| Plan's net pension asset end of the fiscal year | $ (78,615) | $ (40,762) |
| Covered payroll | $ 335,696 | $ 315,317 |
| Net pension asset as a percentage of covered payroll | -23.42% | -12.93% |
| Contributions | $ 3,300 | $ 6,400 |

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

| | FY2020 | FY2019 | FY2018 | FY2017 | FY2016 |
|---|---|---|---|---|---|
| Actuarially determined contribution | $ 7,801 | $ 10,888 | $ 10,154 | $ 8,445 | $ 2,735 |
| Contributions related to actuarially determined contribution | $ 9,800 | $ 12,900 | $ 11,600 | $ 10,900 | $ 10,500 |
| Contribution deficiency (excess) | (1,999) | (2,012) | (1,446) | (2,455) | (7,765) |
| Covered payroll | 335,696 | $ 315,317 | $ 297,737 | $ 283,435 | $ 283,776 |
| Contribution as % of covered payroll | 2.92% | 4.09% | 3.90% | 3.85% | 3.70% |
| Contributions made during the fiscal year | $ 9,800 | $ 12,800 | $ 10,400 | $ 10,900 | $ 9,900 |

| | FY2015 | FY2014 | FY2013 | FY2012 | FY2011 |
|---|---|---|---|---|---|
| Actuarially determined contribution | $ - | $ 8,463 | $ 7,613 | $ 1,400 | $ 12,023 |
| Contributions related to actuarially determined contribution | $ 10,800 | $ 14,400 | $ 12,000 | $ 11,005 | $ 19,811 |
| Contribution deficiency (excess) | (10,800) | (5,937) | (4,387) | (9,605) | (7,788) |
| Covered payroll | $ 266,844 | $ 242,343 | $ 223,754 | $ 208,910 | $ 205,693 |
| Contribution as % of covered payroll | 4.05% | 5.94% | 5.36% | 5.27% | 9.63% |
| Contributions made during the fiscal year | $ 14,400 | $ 12,600 | $ 23,610 | $ 11,249 | $ 5,400 |

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, 2019 and 2020, post-retirement medical benefits plan's fiduciary net position as a percentage of the total OPEB liability is 0%.

The 2019 and 2018 covered payroll for the active population eligible to participate in the post-retirement medical benefits plan is $29,963,700. The net post-retirement medical benefits liability as of July 1, 2019 and 2018, is $30,731,400 and $29,479,700, respectively. The net post-retirement medical benefits liability as a percentage of covered-employee payroll, as of the same time period was 102.56% and 82.36%, respectively.

# El Camino Healthcare District
## Supplemental Schedule of Community Benefit (unaudited)
## For the Years Ended June 30, 2020 and 2019

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, 2020 and 2019, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Unpaid costs of Medi-Cal programs | $ 39,219 | $ 33,618 |
| Indigent charity care | 672 | 378 |
| | 39,891 | 33,996 |
| Other community-based programs | | |
| Psychiatric | 8,621 | 7,933 |
| Clinical trial | 309 | 425 |
| Ambulatory care | 12,501 | 10,423 |
| Psychiatric outpatient | 2,650 | 2,935 |
| Total other community-based programs | 24,081 | 21,716 |
| Total community benefits | $ 63,972 | $ 55,712 |

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 $118,139,000 and $107,800,000 for the years ended June 30, 2020 and 2019, 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 2020 and 2019, these volunteers contributed approximately 50,000 hours and 77,000 hours, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.

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