Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

El Camino Healthcare District

June 30, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

During fiscal year 2013, El Camino Hospital District changed its name to become more transparent in the public eye, to El Camino Healthcare District (the "District"), to make a sharper distinction between the taxpayer-funded District and the operations of El Camino Hospital (the "Hospital") and its subsidiaries.

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

Effective May 6, 2013, ECSC sold certain medical equipment, furnishings, fixtures, inventories, and other tangible personal property in exchange for a seven and one half percent (7.5%) interest in El Camino Ambulatory Surgery Center, ("ECASC"). As of March 2015, ECSC's interest in ECASC has increased to 33.4%. ECSC has provided a working capital line of credit to ECASC in a principal amount of $750,000 represented by a Promissory Note and has a term of 39 months with an interest rate of 5% per annum. At June 30, 2016 and 2015, there were total draws of $483,521 and $414,083 against the line of credit, respectively. The Hospital leases the space to ECASC and provides certain services, such as utilities and building/equipment maintenance. There was $702,000 of rental income recorded for the year ended June 30, 2016, and $717,000 of rental income recorded for the year ended June 30, 2015, related to the lease. On August 29, 2016, ESCS paid off the line of credit of $483,000.

Silicon Valley Medical Development, LLC is organized as a California limited liability company and was formed in 2008. SVMD was established by the Hospital to create initiatives between the independent physicians and the Hospital, to develop and maintain ambulatory ventures not located on the current Hospital campuses, and to provide management services to medical groups in association with the Hospital. In the last quarter of 2016, SVMD opened its first Primary Care Clinic in the San Jose area and anticipates opening approximately two or three other clinics in fiscal year 2017. SVMD is also planning to open three Urgent Care Clinics and a Women's Heart and Vascular Clinic by the end of fiscal year 2018 in the services areas surrounding the Hospital campuses.

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, 2016, 2015, and 2014. This discussion and analysis should be read in conjunction with the consolidated financial statements in this report.

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

Consolidated Financial Highlights

Year Ended June 30, 2016

- During 2016 the Hospital completed an 18-month implementation of the replacement of its previous electronic healthcare patient record system with a state-of-the-art system purchased from the Epic Corporation. Internally known as "iCare" the new system went "live" as scheduled in November 2015. As of the end of fiscal year, the Hospital had a capital investment in the new system of $57 million and training expense of employees and medical staff in excess of $8 million, not including outside staff to back-fill positions to allow the training and needed support after go-live to stabilize the system and make changes to processes/workflows.

- The Hospital has purchased land in South San Jose which will allow for the future growth of our nonprofit community based healthcare services in the southern portion of Silicon Valley. The Hospital is exploring partnerships with medical groups to co-develop the property for acute healthcare needs in the area sometime in the future.

- The increase in the net position for 2016 was $64.1 million, which was a significant challenge given the go-live expenses of iCare. The ending net position for fiscal year 2016 was $1.3 billion.

Year Ended June 30, 2015

- The increase in net position for 2015 was $91.6 million over fiscal year 2014, creating an ending net position of $1.2 billion at year end.

- In May 2015, the Hospital issued $160.5 million of Revenue Bonds (Series 2015A) to (i) finance certain capital expenditures owned by the Hospital (the Project - $40.3 million), (ii) advance refund ($120.2 million) 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.

  The advance refunding of the Series 2007A, 2007B, and 2007C Bonds provides a net present value savings over the life of the Bonds of $13.5 million, which over the Bonds life produces a total reduction of $26.3 million in interest expense.

- Income from operations contributed $75.6 million. Nonoperating income added another $25.1 million that was primarily due to property taxes received by the El Camino Healthcare District and net investment incomes. The District funded various community benefit programs in its service area for $8 million during the year.

Summary of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position
As of June 30, 2016, 2015 and 2014

(In Thousands)

	2016	2015	2014
Assets:			
Current assets	$ 411,110	$ 413,799	$ 415,893
Board designated and restricted funds, net of current portion	491,544	474,888	422,119
Funds held by trustee, net of current portion	46,293	50,081	19,418
Capital assets, net	743,127	698,436	663,650
Other assets	59,399	57,885	64,235
Total assets	**1,751,473**	**1,695,089**	**1,585,315**
Deferred Outflows:			
Loss on defeasance of debt	14,764	15,364	-
Deferred outflow of resources	5,100	7,200	-
Deferred outflow - actuarial	9,950	2,654	-
Total deferred outflows	**29,814**	**25,218**	**-**
Total assets and deferred outflows	**$ 1,781,287**	**$ 1,720,307**	**$ 1,585,315**
Liabilities:			
Current liabilities	$ 114,239	$ 115,252	$ 113,325
Bonds payable, net of current portion	349,336	358,906	316,991
Other long-term liabilities	52,220	50,249	50,573
Total liabilities	**515,795**	**524,407**	**480,889**
Deferred Inflows:			
Deferred inflow of resources	3,596	1,015	1,171
Deferred inflow - actuarial	2,892	-	-
Total deferred inflows	**6,488**	**1,015**	**1,171**
Net position:			
Unrestricted and invested in capital assets, net	1,244,697	1,185,190	1,096,477
Restricted by donors - charity and other	11,599	7,460	4,993
Restricted - endowments	2,708	2,235	1,785
Total net position	**1,259,004**	**1,194,885**	**1,103,255**
Total liabilities, deferred inflow of resources, and net position	**$ 1,781,287**	**$ 1,720,307**	**$ 1,585,315**
Operating cash equivalents & short-term investments	$ 251,888	$ 285,907	$ 279,342
Board designated, funds held by trustee, & restricted funds	553,309	534,267	453,272
Total available cash & investments	**$ 805,197**	**$ 820,174**	**$ 732,614**

Investments

The consolidated District maintains sufficient cash balances to pay daily operational expenses and all short term liabilities. In late fiscal year 2012, the Hospital (exclusive of the District) selected an Investment Consultant to assist the Hospital and its subsidiaries in managing its investments, and both the investment policies for Surplus Cash and Cash Balance Plan were updated and approved by the Hospital Board of Directors. The policies allow for greater diversification in the investment portfolios to balance the need for liquidity with a long-term investment focus in order to improve investment returns and the organization's financial strength. Beginning early in fiscal year 2013, an Investment Committee was formed to perform the following responsibilities, among others: monitor performance of investment managers, monitor allocations across investment styles and investment managers, review compliance with the policies, and make recommendations for revisions to the policies. Throughout fiscal years 2015 and 2014, the number of money managers expanded from two money managers for Surplus Cash to approximately twenty-nine managers.

Capital Assets

Starting in January 2014, the Hospital entered into a multi-year strategic partnership with the Epic Corporation to install a state-of-the-art electronic healthcare record system known internally as "iCare". The new electronic patient record system provides access to lifetime health records across its regional community while delivering real time bedside clinical decision support and data sets that will be optimized with best practices on a single platform. This platform provides for exchange of patient medical data with many of the Hospital's strategic service partners, thus demonstrating to the community that the Hospital and its partners want to treat each citizen using timely, relevant health information.

In fiscal year 2016, the iCare healthcare record system went "live", as projected, on November 7, 2015, with a current capital investment at June 2016 of $57 million and $8 million expended in training of most employee staff and all physicians. In fiscal year 2017, the Hospital will initiate significant upgrades and refinements to its iCare system for an additional capital expenditure of approximately $2 million.

In January 2016, the Hospital has purchased land in South San Jose which will allow for the future growth of our nonprofit community based healthcare services in the southern portion of Silicon Valley. The Hospital in forging deeper partnerships with independent physicians and physician groups is exploring the co-development of the property by expanding acute care programs and clinical services through building urgent cares and primary care clinics.

During fiscal year 2016, the Hospital replaced two of its surgical robots with the next generation of these state-of-the-art surgical medical robots at a capital cost of $3.9 million.

At the Hospital's Los Gatos campus, continuing progress was made during fiscal year 2016 to the significant renovations and upgrades to its Imaging and Surgery services and Central Sterile Processing functions. All seismic upgrades to the Los Gatos campus to make it in seismic compliance to 2030 were completed in fiscal year 2015.

At the end of 2016, the Hospital received approval from the City of Mountain View to complete its Mountain View Master Plan construction projects and the District and Hospital Boards approved final funding of the four projects on August 10, 2016. Initial construction on the projects commenced the summer of 2016. The projects are:

1) Replacement of its Behavioral Health Services building – project cost $91.5 million

2) North Parking Garage Expansion – project cost $24.5 million

3) Integrated Medical Office Building and parking structure – project cost $275 million

4) Central Utility Plant Upgrades - project costs $9 million

It is projected that the North Parking Garage Expansion will be completed in spring 2017 and the other three (3) projects in the Fall of 2018.

To assist in financing these projects, the Hospital has started on a tax-exempt Revenue Bond issuance of approximately $270 million. It is currently expected that the Closing of the bond issue will be the beginning of November 2016.

Also subsequent to fiscal year 2016, the District has started to proceed with a refunding of its 2006 original $148 million Government Obligation ("G.O") Bonds (with a current payable balance of $134 million), given the current reduced interest rates. Like the Hospital's revenue bonds issuance, the District expected close will be the beginning of November 2016.

Revenues and Expenses

The following table displays revenues and expenses for 2016, 2015, and 2014:

Revenues & Expenses
Years Ended June 30, 2016, 2015 and 2014

(In Thousands)

	2016	2015	2014
Operating revenues:			
Net patient service revenue net of bad debt of $18,966, $, 22,160 $18,690 in 2016, 2015, and 2014, respectively	$ 772,173	$ 746,645	$ 719,487
Other revenue	34,237	29,830	28,378
Total operating revenues	**$ 806,410**	**$ 776,475**	**$ 747,865**
Operating expenses:			
Salaries, wages & benefits	$ 439,877	$ 412,818	$ 398,577
Professional fees and purchased services	106,838	100,152	91,240
Supplies	118,096	110,003	104,382
Depreciation and amortization	49,051	44,913	47,839
Rent and utilities	15,669	15,137	15,431
Interest	6,368	4,904	7,403
Other	19,456	12,881	13,930
Total operating expenses	**$ 755,355**	**$ 700,808**	**$ 678,802**
Operating income	**$ 51,055**	**$ 75,667**	**$ 69,063**
Nonoperating revenue (expense) items:			
Bond interest expense	(4,523)	(4,604)	(4,674)
Intergovernmental transfer expense	(802)	(6,759)	(2,391)
Realized investment income	16,672	14,795	18,706
Unrealized investment (loss) gain	(16,886)	3,979	35,943
Property tax revenues	23,633	21,097	19,153
Restricted gifts, grants and other net of contributions to related parties	7,038	4,344	1,521
Unrealized loss on interest rate swap	(3,214)	(1,009)	(142)
Community benefit expense	(6,049)	(8,023)	(7,150)
Other, net	(2,805)	1,268	(779)
Total nonoperating revenues and expenses	**$ 13,064**	**$ 25,088**	**$ 60,187**
Increase in net position	**$ 64,119**	**$ 100,755**	**$ 129,250**
Total net position, beginning of year	**1,194,885**	**1,103,255**	**974,005**
CUMULATIVE EFFECT OF RESTATEMENT	**-**	**(9,125)**	**-**
Total net position, beginning of year, as restated	**1,194,885**	**1,094,130**	**974,005**
Total net position, end of year	**$ 1,259,004**	**$ 1,194,885**	**$ 1,103,255**

Fiscal Year 2016 Consolidated Financial Analysis

Net Patient Services Revenues

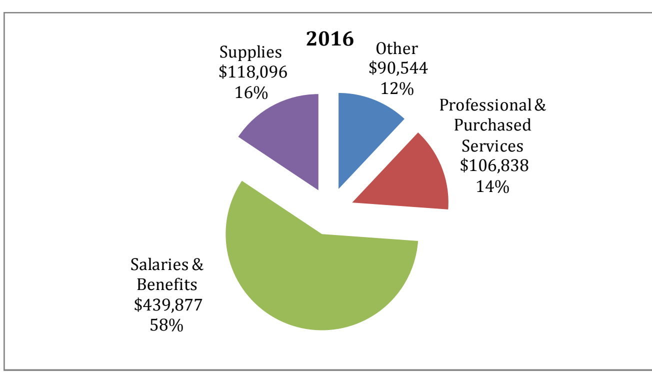
Net patient services revenue in fiscal year 2016 increased by $25.5 million, or 3.4% over fiscal year 2015. This increase was due to increases in volumes and net revenue in General Surgery, Oncology, Behavioral Health and Outpatient Interventional Services. There was also improved charge capture after Epic go-live and better reimbursement in Emergency Services, Heart & Vascular, Spine Surgery & Neurosciences service lines.

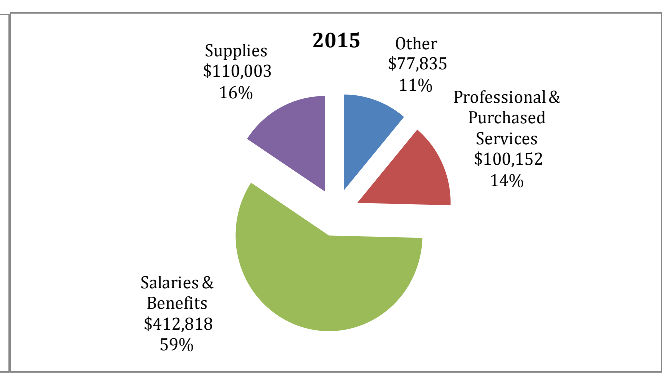
Specialty	2016 Days	2015 Days	% Change
Medical/Surgical	61,046	60,403	1.1%
Maternity	14,465	15,618	-7.4%
Pediatrics	4	15	-73.3%
NICU	5,199	5,808	-10.5%
Psychiatry	7,990	7,943	0.6%
Normal newborn	10,717	11,522	-7.0%
Total	**99,421**	**101,309**	**-1.9%**

Specialty	2016 LOS	2015 LOS	% Change
Medical/Surgical	4.9	4.9	1.2%
Maternity	3.0	3.0	-1.8%
Pediatrics	1.9	1.9	1.3%
NICU	9.8	9.8	0.0%
Psychiatry	10.0	9.7	9.9%
Normal newborn	2.5	2.5	-0.2%
Average Length of Stay ("LOS")	**4.3**	**4.3**	**1.4%**

The overall case mix index, which is an indicator of patient acuity, was 1.48 in fiscal year 2016, compared to 1.44 in fiscal year 2015.

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 $27.1 million in fiscal year 2016 over 2015, which is 58.2% of total operating expenses and consistent with fiscal year 2015. Salaries and wages (exclusive of employee benefits) increased by $17.7 million over fiscal year 2015. Registered Nurse ("RN") payroll salaries increased by $2.2 million in fiscal year 2016 compared to 2015, but this modest increase does not paint the entire picture. With the final months of the implementation and training of iCare healthcare patient records system, a significant amount, $5.7 million over fiscal year 2015, was spent on outside registries which provided RN backfill coverage as they finalized initial implementation and/or training in the use of iCare (refer to Other Expense section). Another area of significant in salary expense over the prior year, an amount of $8.5 million, was for technical and special employee base. The largest increase was for IT staff for implementation and support of the iCare system, while supporting of legacy systems being replaced over a period of time.

With an RN turnover rate of 6.9%, the Hospital continues to do better than the Northern California rate of 10.1% and the statewide rate of 10.1%, as published by the California Hospital Association ("CHA") at the end of the first quarter of the calendar year 2016.

In fiscal year 2016, the Hospital added 43 Full Time Equivalents ("FTE"). The impact of maintaining the new iCare electronic healthcare patient record system we added 31 FTE's. Other increases were due to bringing Clinical Trials personnel in-house (4 FTE's), Medical Records (2 FTE's), Environmental Services (4 FTE's), and Sterile Processing (2 FTE's).

The Corporation and Professional Resources for Nurses ("PRN") have been in negotiations since February 2016 for a new contract to replace or extend the current agreement. During negotiations, PRN extended the contract through September 15, 2016. While the contract has expired, its terms and conditions remain in place. The Hospital and PRN engaged an independent mediator and a tentative agreement reached in September. However, the tentative agreement was not ratified by a majority of union members. The mediator will report his recommendations and the Fact Finding process will continue in October 2016 as both the Hospital and PRN continue to work toward an agreement.

Employees represented by SEIU United Healthcare Workers ("SEIU – UHW") are under a current contract that extends through June 2017. In fiscal year 2016 they received 3.0% increases in July 2015.

The Hospital's Stationary Engineers – Local 39, per the current three year contract through October 2016, received a 3.0% contractual increase in November 2015.

Hospital-represented, non-management staff already on a merit based system received an average of 3.2% in July 2015.

Management and Senior executive staff received market-based adjustments or merit increases in August 2015 that averaged 3.5% in the aggregate.

Employee Benefits

Aggregate employee benefits, including accrued Paid Time Off ("PTO") and Extended Sick Leave increased by $7.9 million.

Significant increases were as follows:

- Accrued PTO increased by $2.1 million over the prior year driven by wage and salary increases during the year.

- Employer Social Security and Medicare taxes increased by $1.1 million principally due to the increase in the Social Security wage base threshold and salary and wage increases.

- Healthcare expense (medical, dental, and vision) increased a modest $772,000 over 2015.

- The Hospital's provided 403B Match increased by $732,000 over 2015 primarily due to salary increases and greater employee contributions.

- Retention bonuses of $484,000 were paid in fiscal year 2016 over 2015 to certain IT personnel to retain staff to support the legacy electronic medical record system and related systems that were replaced by the new iCare system in November 2015.

- Postretirement healthcare expenses increased by $231,000 over 2015, primarily driven by increased actuarially determined expense for the 2016 fiscal year.

Professional and Purchased Services

Total professional and purchased services increased by $6.7 million over the prior fiscal year.

Significant increases were as follows:

- 24/7/365 coverage for OB Hospitalists Services at both campuses that had started in the second half of fiscal year 2015, and in fiscal year 2016 was fully implemented causing an increase of $1.6 million over prior year.

- Other new or rate increases for physician medical fees for 24/7 on-call arrangements at Emergency Rooms and medical directorship expense increase by $1.9 million over the prior fiscal year.

- To increase IT security safeguards, the Hospital engaged an outside firm to review IT security and assist in implementing additional safeguards and processes causing an additional expense in the current year of $1.0 million.

- The implementation of iCare caused significant non-capital expense for backfilling numerous professional positions and workflow consulting within IT, Health Information Medical Systems, Clinical Analytics, etc. for expenses totaling $2.3 million in the current year.

Supplies

Total supplies increased by $8.1 million in fiscal year 2016 over 2015. Pharmaceuticals increased by $4.8 million. With the expansion of the Cancer Center that opened the end of fiscal year, the service saw an increased patient volumes during the current year causing a significant increase in cancer infusion drugs. The pharmaceutical industry saw an overall inflation rate of 7.2% for the year. Medical Supplies increased by approximately $3.0 million primarily heart & vascular devices, as the core value and the atrial closure device that is to eliminate the need for taking blood thinning agents for a patient's remaining life. Robotic surgeries increased in this current year given the acquisition of two of the latest robotic technology systems, which increased those certain robotic medical supplies. Other areas were for radioactive contract materials and updating the surgeon instrumentation sets.

Depreciation and Amortization

Depreciation and amortization expense this fiscal year increased by $4.1 million over fiscal year 2015. Primarily this was due to the new Cancer Center that opened at the end of fiscal year 2015, thus fully operational for the entire 2016 year. Due to the impending construction of the Integrated Medical Office Building, the older two story building known as the "North Addition" completed in the 1980's was placed on accelerated depreciation for its remaining net book value in fiscal year 2016 as it is in the footprint of this new building and is scheduled to be demolished in the summer of 2016. Lastly the new IT data operations center completed in mid-fiscal year 2015 was fully in operation during 2016, thus increasing this year's depreciation expense.

Rent and Utilities

Rent and utilities this fiscal year was increased by an insignificant $532,000 over fiscal year 2015.

Interest Expense

Operating interest expense is primarily related to the 2015A Revenue Bonds, ("Series 2015A bonds") which refunded its 2007 Series Bonds ($120.2 million) and financed certain capital expenditures ($40.3 million) at the Hospital's Los Gatos campus. The advance refunding of the 2007 Series Bonds caused a loss on defeasance of $15.3 million which is being amortized as additional interest expense of the life of the 2015A Bonds, which adds an additional $600,000 in interest expense per year.

Other Expense

There was an increase of $6.6 million in fiscal year 2016 over 2015. Primarily this was due to going "live" in November 2015 with the iCare electronic healthcare patient record. Employee training was needed for all clinical users, a number of support departments within the Hospital, and the entire medical staff which was at a cost of $8.1 million. There was an increase in property taxes ($507,000) that the Hospital must pay on its Medical Office Buildings that are leased to physicians, as these properties are not exempt from property taxes. Offsetting these increases was a significant decrease in marketing expenses of $1.3 million.

Change in Net Unrealized Gains and Losses on Investments

For fiscal year 2016, the Hospital had 29 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 net unrealized loss on investments of -$16.9 million during fiscal year 2016 and the change in net unrealized gains and losses for fiscal year 2016 was a Year over Year ("YOY") decrease of $20.8 million. The change in net unrealized gains and losses in 2016 were primarily a result of poor hedge fund investment returns as they returned -7.2% for the twelve months ended June 30, 2016 and generated -$8.7 million in change in net unrealized gains and losses. Externally held funds (excluding hedge funds) and mutual fund investments generated -$7.2 million in change in unrealized gains and losses; however, $2.3 million was due to the realization of gains primarily from private real estate investments. Within mutual funds, international equity and U.S. large-cap growth equity strategies were the primary driver of unrealized losses throughout fiscal year 2016. Separate account equities also experienced negative changes in net unrealized gains and losses of -$4.5 million; however, $2.9 million was due to the realization of gains as an underlying manager was liquidated during fiscal year 2016. Fixed income investments partially offset the impact of other asset classes as they experienced a positive change in net unrealized gains and losses of $3.5 million during fiscal year 2016. A decrease in interest rates caused in increase in unrealized gains for fixed income investments.

The YOY decrease in net unrealized gains and losses were primarily due to a $12.3 million decrease in hedge fund investments and an $11.0 million decrease in externally held funds (excluding hedge funds) and mutual fund investments. Hedge fund investments returned -7.2% during fiscal year 2016, whereas they returned +2.0% in fiscal year 2015. Within mutual fund investments, internationally equity returned -6.0% during fiscal year 2016 versus -2.8% in fiscal year 2015 and U.S. large-cap growth equities returned -10.6% in 2016 versus +7.2% in 2015.

Economic Factors and Next Year's Budget

The Board approved the fiscal year 2017 budget at their June 2017 meeting. The District is budgeting net income of $76.2 million in fiscal year 2017. Volumes are budget to increase 2.2%. Reimbursement rates are projected to decrease by 2.5%. Expenses are budgeted to increase by 2.8%. The organization is focused on being a value-based healthcare provider offering top decile, acute care quality at mid-level pricing, moving toward continuum partnerships that integrate care coordination and delivery strategies while maintaining triple aim of quality, service and affordability.

Fiscal Year 2015 Consolidated Financial Analysis

Net Patient Services Revenues

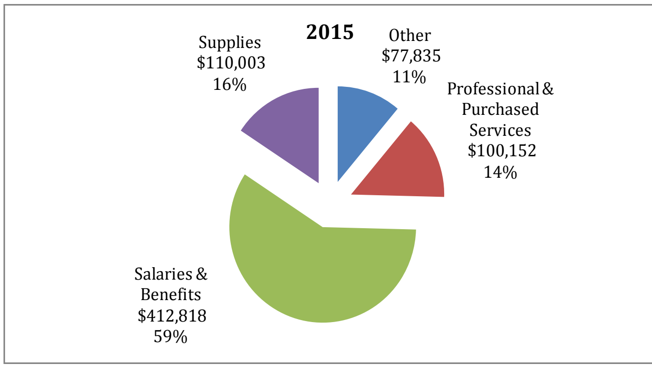
Net patient services revenue in fiscal year 2015 increased by $27.2 million, or 3.8% over fiscal year 2014. This increase was due to increases in volumes and contribution margins for the HIV, Oncology, Spine, and Imaging service lines. Additional intergovernmental funds ("IGT") of $6.0 million was received in fiscal year 2015 to catch up for a one year backlog in payment.

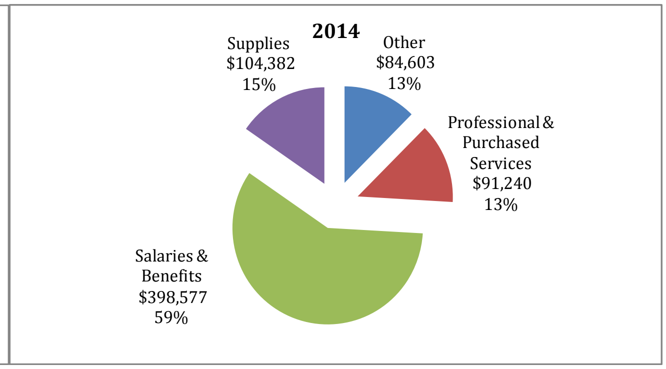
Specialty	2015 Days	2014 Days	% Change
Medical/Surgical	60,403	57,210	5.6%
Maternity	15,618	16,169	-3.4%
Pediatrics	15	42	-64.3%
NICU	5,808	5,980	-2.9%
Psychiatry	7,943	7,482	6.2%
Normal newborn	11,522	11,670	-1.3%
Total	**101,309**	**98,553**	**2.8%**

Specialty	2015 LOS	2014 LOS	% Change
Medical/Surgical	4.9	4.8	2.1%
Maternity	3.0	3.1	-3.2%
Pediatrics	1.9	1.9	0.0%
NICU	9.8	10.4	-5.8%
Psychiatry	9.7	8.9	9.0%
Normal newborn	2.5	2.4	4.2%
Average LOS	**4.3**	**4.2**	**2.4%**

The overall case mix index, which is an indicator of patient acuity, was 1.44 in fiscal year 2015, compared to 1.42 in fiscal year 2014.

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 $14.2 million in fiscal year 2015 over 2014, which is 58.9% of total operating expenses and consistent with fiscal year 2014. Salaries and wages (exclusive of employee benefits) increased by $11.8 million over fiscal year 2015. Registered Nurse ("RN") payroll salaries increased by $6.9 million in fiscal year 2015 compared to 2014. Approximately $1.8 million of this increase was due to scheduled contract wage increases of 2.0% that occurred in September 2014 and March 2015. The remaining increase was due to greater hours worked due to increased patient load. With an RN turnover rate of 4.5%, the Hospital continues to do better than the Northern California rate of 8.8% and the statewide rate of 10.1%, as published by the California Hospital Association ("CHA") at the end of the first quarter of the calendar year 2015.

In fiscal year 2015, the Hospital added a very modest 10 Full Time Equivalents ("FTE"). With the on-going implementation of the Hospital's iCare electronic medical record system, the Hospital had to backfill a number of internal positions that were assigned to the project with more expensive outside temporary personnel.

Employees represented by SEIU United Healthcare Workers ("SEIU – UHW") were under a current contract that extends through June 2016. In fiscal year 2015 they received 1.0% increases in July 2014.

The Hospital's Stationary Engineers – Local 39, per the current three year contract through October 2016, received a 3.0% contractual increase in November 2014.

Hospital-represented, non-management staff were granted a 2.0% salary and wage increase in July 2014.

Senior executive staff received market-based adjustments in August 2014 that averaged 3.0% in the aggregate.

Employee Benefits

Aggregate employee benefits, including accrued Paid Time Off ("PTO") and Extended Sick Leave increased by $2.9 million.

Significant increases were as follows:

- Healthcare expense increased by $1.7 million over fiscal year 2014 primarily due to employees' spouses and/or families opting into the Hospital's healthcare plans.

- Accrued PTO increased by $1.5 million over the prior year driven by wage and salary increases during the year.

- Employer Social Security and Medicare taxes increased by $700,000 principally due to the increase in the Social Security wage base threshold and salary and wage increases.

- Retention bonuses of $500,000 were paid in fiscal year 2015 to certain IT personnel to retain them to support the legacy electronic medical record system that was replaced by the new iCare system in November 2015.

- Net Workers Compensation expense decreased by $1.7 million over fiscal year 2014 due to a decrease in the needed actuarial reserves due, again as in the prior year, positive changes made administration of the program by the Hospital and the change in the Third Party Administrator for processing claims.

Professional and Purchased Services

Total professional and purchased services increased by $8.9 million over the prior fiscal year.

Significant increases were as follows:

- Cost of issuance expenses for the $160,455,000 2015A Revenue Bonds in May 2015 totaling $1.9 million.

- Physician medical fees for 24/7 on-call arrangements at Emergency Rooms (primarily adding OB Hospitalists services at both Mountain View and Los Gatos campuses in fiscal year 2015) totaling $1.6 million.

- Conversion to iCare (electronic healthcare record) occurred in November 2015 the legacy system's maintenance contract was being terminated before its normal expiration date - $1.5 million.

- Growth in the CONCERN's Employee Assistance Program caused increases for purchased outside counseling providers totaling $1.4 million.

- On-going repairs and maintenance to all the buildings on the Mountain View and Los Gatos campuses increased by $900,000 in fiscal year 2015.

- Additional collection agency services were utilized in the current year to assist in working down the Accounts Receivable of the legacy system upon conversion to iCare in November totaling $600,000.

Supplies

Total supplies increased by $5.6 million in fiscal year 2015 over 2014. There was a significant outpatient volume increase of cancer patients causing an increase of infusion drugs of $3.3 million over last year, along with drug supply price increases in the range of 4.0% to 5.0% over the year. Surgery instrumentation sets increased in the fiscal year by $600 thousand due to increasing and standardizing of the instrumentation inventories.

Depreciation and Amortization

Depreciation and amortization expense this fiscal year decreased over the prior year by $2.9 million primarily caused by the state of art Imaging equipment in excess of $20.0 million put into service as the Mountain View hospital opened in November 2009 became fully depreciated in mid fiscal year 2014, thus in fiscal year 2015 no depreciation expense was attributable to this equipment.

Rent and Utilities

Rent and utilities this fiscal year decreased by an insignificant $294,000 over fiscal year 2014.

Interest Expense

Operating interest expense is related to the newly issued 2015A Bonds, along with the 2009A bonds and the 2007 Series A, B, C bonds that were defeased in May 2015. This interest expense decreased in fiscal year 2015 by $2.5 million over fiscal year 2014 primarily by refunding of the 2007 Series Bonds as part of the 2015A issuance.

Other Expense

The decrease of $1 million over the prior fiscal year is due to decreased property taxes as the prior year had a one-time four (4) year retro billing for certain buildings at the Mountain View campus which are leased as medical offices to physicians; reduced malpractice in current year due to decreased monthly premiums, deductible payments, and special dividends. An offset to these decreases was an increase to employee expense for traveling to Wisconsin for necessary Epic (iCare) training sessions.

Change in Net Unrealized Gains and Losses on Investments

For fiscal year 2015, the Hospital had twenty-seven 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 unrealized gains of $4.0 million during fiscal year 2015; however, the change in net unrealized gains and losses for fiscal year 2015 was a Year over Year ("YOY") decrease of $32.0 million. Net unrealized gains in 2015 were primarily a result of strong domestic equity market returns as the S&P 500 Index was up 7.4% for the twelve months ended June 30, 2015. The combination of hedge funds and mutual funds unrealized gains were the main drivers of the increase; hedge funds experienced unrealized gains of $4.0 million in fiscal year 2015 and mutual funds $3.8 million. Mutual fund investments are primarily comprised of equity securities. Fixed income securities experienced a net unrealized loss of $3.8 million in 2015.

The YOY decrease in net unrealized gains and losses were primarily due to an $18.0 million decrease in mutual fund investments and an $11.3 million decrease in fixed income investments. Equity based mutual funds performed well during the fiscal year, however, were not able to keep pace with the level of returns in fiscal year 2014 as the S&P 500 Index was up 24.6% in fiscal year 2014. Within fixed income investments, the Barclays Aggregate Index return fell 2.5% fiscal YOY.

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

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, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the District as of June 30, 2016 and 2015, 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 14, and the accompanying supplemental pension and postretirement benefit information on page 49, 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 page 46, 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 51 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 19, 2016

CONSOLIDATED FINANCIAL STATEMENTS

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2016 and 2015
(In Thousands)

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
Current assets		
Cash and cash equivalents	$ 63,422	$ 59,149
Short-term investments	188,466	226,758
Current portion of board designated and funds held by trustee	15,472	9,298
Patient accounts receivable, net of allowances for doubtful accounts of $25,927 and $9,187 in 2016 and 2015, respectively	121,570	96,053
Prepaid expenses and other current assets	22,180	22,541
Total current assets	411,110	413,799
Non-current cash and investments		
Board-designated funds	491,494	474,833
Restricted funds	50	55
Funds held by trustee	46,293	50,081
	537,837	524,969
Capital assets, net	743,127	698,436
Pledges receivable, net of current portion	2,683	1,825
Prepaid pension asset	22,651	24,327
Investments in healthcare affiliates	30,469	30,718
Beneficial interest in charitable remainder unitrusts	3,596	1,015
Total assets	1,751,473	1,695,089
Deferred outflows		
Loss on defeasance of bond payable	14,764	15,364
Deferred outflows of resources	5,100	7,200
Deferred outflows - actuarial	9,950	2,654
Total deferred outflows	29,814	25,218
Total assets and deferred outflows	$ 1,781,287	$ 1,720,307
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	$ 28,973	$ 30,926
Salaries, wages, and related liabilities	49,053	46,248
Other current liabilities	16,754	10,112
Estimated third-party payor settlements	11,314	20,253
Current portion of bonds payable	8,145	7,713
Total current liabilities	114,239	115,252
Bonds payable, net of current portion	349,336	358,906
Other long-term obligations	13,955	10,633
Workers' compensation, net of current portion	20,009	22,419
Post-retirement medical benefits, net of current portion	18,256	17,197
Total liabilities	515,795	524,407
Deferred inflow of resources		
Deferred inflow of resources	3,596	1,015
Deferred inflow of resources - actuarial	2,892	-
Total deferred inflows	6,488	1,015
Net position		
Invested in capital assets, net of related debt	447,401	353,560
Restricted - expendable	11,599	7,460
Restricted - nonexpendable	2,708	2,235
Unrestricted	797,296	831,630
Total net position	1,259,004	1,194,885
Total liabilities, deferred inflow of resources, and net position	$ 1,781,287	$ 1,720,307

See accompanying notes.

(In Thousands)

	2016	2015
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $18,966 and $22,160 in 2016 and 2015, respectively)	$ 772,173	$ 746,645
Other revenue	34,237	29,830
Total operating revenues	806,410	776,475
OPERATING EXPENSES		
Salaries, wages, and benefits	439,877	412,818
Professional fees and purchased services	106,838	100,152
Supplies	118,096	110,003
Depreciation and amortization	49,051	44,913
Rent and utilities	15,669	15,137
Other	25,824	17,785
Total operating expenses	755,355	700,808
Income from operations	51,055	75,667
NONOPERATING REVENUES (EXPENSES)		
Investment (expense) income, net	(214)	18,774
Property tax revenue		
Designated to support community benefit programs and operating expenses	7,626	7,100
Designated to support capital expenditures	6,171	5,152
Levied for debt service	9,836	8,845
Bond interest expense	(4,523)	(4,604)
Intergovernmental transfer expense	(802)	(6,759)
Restricted gifts, grants and bequests, and other, net of contributions to related parties	7,038	4,344
Unrealized loss on interest rate swap	(3,214)	(1,009)
Community benefit expense	(6,049)	(8,023)
Other, net	(2,805)	1,268
Total nonoperating revenues (expenses)	13,064	25,088
Increase in net position	64,119	100,755
TOTAL NET POSITION, beginning of year	1,194,885	1,094,130
TOTAL NET POSITION, end of year	$ 1,259,004	$ 1,194,885

See accompanying notes.

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015
(In Thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 736,915	$ 745,198
Other cash receipts	34,237	30,819
Cash payments to employees	(433,431)	(418,327)
Cash payments to suppliers	(273,871)	(250,969)
Net cash provided by operating activities	63,850	106,721
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	13,797	12,252
Restricted contributions and investment income	6,180	3,365
Transfers from restricted funds and other	5	(2)
Net cash provided by noncapital financing activities	19,982	15,615
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property, plant, and equipment	(87,337)	(81,057)
Proceeds from disposal of property, plant and equipment	-	369
Payments on bonds payable	(7,712)	(2,719)
Proceeds from bond issuance	-	177,921
Interest paid on General Obligation bonds payable	(4,523)	(4,604)
Refunding of bonds payable	-	(145,932)
Tax revenue related to General Obligation bonds payable	9,836	8,845
Net cash used for capital and related financing activities	(89,736)	(47,177)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(710,343)	(925,344)
Sales of investments	725,800	874,486
Investment (expense) income, net	(214)	19,127
Community benefit and other investing activities	(8,854)	(6,755)
(Increase) decrease in notes receivable	-	27
Change in funds held by trustee, net	3,788	(30,663)
Net cash provided by (used for) investing activities	10,177	(69,122)
Net increase in cash and cash equivalents	4,273	6,037
CASH AND CASH EQUIVALENTS at beginning of year	59,149	53,112
CASH AND CASH EQUIVALENTS at end of year	$ 63,422	$ 59,149
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	$ 51,055	$ 75,667
Adjustments to reconcile income from operations to net cash from operating activities		
Loss on disposal of property, plant and equipment	-	989
Amortization of loss on defeasance of bond payable	600	-
Amortization of bond premium	(1,426)	(353)
Depreciation and amortization	49,051	44,913
Provision for bad debts	18,966	22,160
Changes in assets and liabilities		
Patient accounts receivable, net	(54,224)	(23,607)
Prepaid expenses and other current assets	(2,910)	(12,614)
Current liabilities	1,089	899
Other long-term obligations	(2,302)	(2,241)
Deferred inflow of resources - actuarial	2,892	-
Postretirement medical benefits	1,059	908
Net cash provided by operating activities	$ 63,850	$ 106,721
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING ACTIVITIES		
Non cash purchase of property, plant, and equipment	$ 6,405	$ -
Change in fair value of beneficial interest in charitable remainder unitrusts, and deferred inflow of resources, net	$ 2,581	$ 156

See accompanying notes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – During fiscal year 2013, El Camino Hospital District changed its name to El Camino Healthcare District (the "District"), to make a sharper distinction between the taxpayer-funded District and the operations of El Camino Hospital (the "Hospital") and its related corporations.

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

The District is organized as a political subdivision of the State of California and was created for the purpose of operating an acute care hospital and providing management services to certain related corporations. The District is the sole member of the Hospital, and the Hospital is the sole corporate member of the Foundation and CONCERN. As sole member, the District (with respect to the Hospital) and the Hospital (with respect to the Foundation and CONCERN) have certain powers, such as the appointment and removal of the boards of directors and approval of changes to the articles of incorporation and bylaws. As of June 30, 2016 and 2015, the Hospital owns 100% of ECSC.

The purpose of CONCERN is to provide and operate a specialized healthcare service plan for various business organizations nationwide; CONCERN has a limited Knox-Keene license from the Department of Corporations of the State of California.

SVMD was formed in September 2008 as a Limited Liability Corporation ("LLC"), a wholly owned subsidiary of the Hospital focused on the expansion of the clinical enterprise outside of the Hospital through various business ventures and physician alignment initiatives that improve access for the Hospital's current patients and new, underserved members of the community, extend healthcare into people's homes through the applications of electronic connectivity and assist independent physicians in clinical integration with the Hospital, among other initiatives. In the last quarter of 2016, SVMD opened its first Primary Care Clinic in the San Jose area and anticipates opening approximately two to three other clinics in fiscal year 2017.

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 2016 and 2015, cash and cash equivalents include repurchase agreements, which consist of highly liquid obligations of U.S. governmental agencies. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

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

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

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

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

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

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

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

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

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

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 future reporting period. These financial statement elements are distinct from assets and liabilities.

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

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

Risk management – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

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

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2016	$ 24,719	$ 3,264	$ 5,674	$ 22,309	$ 2,300
	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**	**Current Portion**
2015	$ 26,337	$ 3,584	$ 5,202	$ 24,719	$ 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
2016	$ 22,474	$ 40,960	$ 40,202	$ 23,232	$ 23,232
	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**	**Current Portion**
2015	$ 21,152	$ 40,384	$ 39,062	$ 22,474	$ 22,474

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 $447,401,000 and $353,560,000 at June 30, 2016 and 2015, 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, nonexchange contributions received from the Foundation's fundraising activities and are reported as nonoperating. Investments in Pathways Home Health & Hospice and Pathways Private Duty are accounted for under the equity method. The Hospital's share of the operating income of these entities is included as other, net in the consolidated financial statements.

Net patient service revenue and patient accounts receivable – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. The distribution of net patient accounts receivable by payor at June 30, 2016 and 2015, is as follows:

	June 30,	
	2016	2015
Medicare	14%	17%
Medi-Cal	4%	4%
Commercial and other	81%	78%
Self pay	1%	1%
	100%	100%

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

Charity care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of estimated costs for services and supplies furnished under the Hospital's charity care policy aggregated approximately $2,290,000 and $1,708,000 for the years ended June 30, 2016 and 2015, respectively.

Property tax revenue – The District received approximately 37% in 2016 and 21% in 2015 of its total increase in net position from property taxes. These funds were designated as follows (in thousands):

	June 30,			
	2016		2015	
Designated to support community benefit programs and operating expenses	$	7,626	$	7,100
Designated to support capital expenditures	$	6,171	$	5,152
Levied for debt service	$	9,836	$	8,845

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

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

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

Reclassifications – Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

New accounting pronouncements - The GASB issued GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB No. 72"), which is effective for financial statements for periods beginning after June 15, 2015. GASB No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share. The District has adopted this pronouncement and reflected the adoption as of the fiscal years ended June 30, 2016 and 2015. See Note 5.

The GASB issued GASB Statement No. 79*, Certain External Investment Pools and Pool Participants,* ("GASB No. 79"), which is effective for financial statements for periods beginning after June 15, 2015. GASB No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all the applicable criteria established in GASB No. 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria establish by GASB No. 79 during the reporting period, individually or in the aggregate, were significant. The District has reviewed and evaluated this pronouncement and has determined no material impact to the consolidated financial statements for the fiscal year ended June 30, 2016.

The GASB issued GASB Statement No. 81, *Irrevocable Split Interest Agreements*, ("GASB No. 81"), which provides recognition and measurement guidance for governments that benefit from irrevocable split-interest agreements. Under a typical irrevocable split-interest agreement, a donor transfers assets for the shared benefit of at least two beneficiaries: a government and another donor-designated beneficiary. The donor transfers the related assets to either the government or to a separate third party, such as a bank. GASB No. 81 addresses when these types of arrangements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The District has adopted this guidance for the fiscal year ended June 30, 2016, and has retrospectively applied the guidance as of the earliest prior period presented.

The GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statement No. 67, No. 68, and No. 73*, ("GASB No. 82"), which is effective for financial statements for periods beginning after June 15, 2016. GASB No. 82 addresses certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* Specifically, GASB No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. The adoption of GASB No. 82 is effective for the District beginning July 1, 2016. The adoption is not expected to have a material impact on the District's consolidated financial statements.

The GASB also issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, ("GASB No. 74"), and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, ("GASB No. 75"). GASB No. 74 intends to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or "OPEB") included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The adoption of GASB No. 74 is effective for the District beginning July 1, 2016, while GASB No. 75 is effective for the District beginning July 1, 2017. The District is currently assessing the impact of these standards on the District's consolidated financial statements.

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* ("GASB No. 68"), which is effective for financial statements for periods beginning June 15, 2014. GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions are also addressed. The District has adopted this statement for the fiscal year ended June 30, 2015.

NOTE 2 – OPERATING REVENUES

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

	2016	2015
Medicare (including Medicare HMO)	27%	26%
Commercial and other	70%	72%
Medi-Cal (including Medi-Cal HMO)	3%	2%
	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 District is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The effect of updating prior year estimates for Medicare and other liabilities was to decrease 2016 income from operations by $8,939,000, and increase 2015 income from operations by $1,691,000. The Hospital's cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012.

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, 2016 and 2015, the Hospital recognized amounts under the IGT program of $0 and $12,302,000, respectively, which have been reported as net patient service revenue. A letter of intention to participate in the program was sent out but a request letter from the Department of Health Care Services ("DHCS") has not been sent. Therefore, no IGT was recognized for 2016.

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

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

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

NOTE 3 – CASH DEPOSITS

At June 30, 2016 and 2015, District cash deposits had carrying amounts of $63,422,000 and $59,149,000, respectively, and bank balances of $71,658,000 and $62,854,000, respectively. All of these funds were held in cash deposits, which are collateralized with the California Government Code ("CGC"), except for $250,000 per account that is federally insured by the Federal Deposit Insurance Corporation ("FDIC").

The District participates in a cash management program provided by its primary depository institution that allows cash in District concentration accounts to be swept daily and invested overnight in reverse agreements that are not exposed to custodial credit risk because the underlying securities are held by the buyer-lender. At June 30, 2016 and 2015, balances in repurchase agreements had bank balances of $71,658,000 and $58,069,000, respectively, and are included in the carrying amounts above.

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

Board-designated funds, funds held by trustee, and short-term investments, collectively, as of June 30, 2016 and 2015, comprised the following (in thousands):

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
2016				
Cash and cash equivalents	$ 43,563	$ -	$ -	$ 43,563
Mutual funds	208,161	19,847	(2,385)	225,623
Real estate funds	23,426	3,644	-	27,070
Hedge funds	94,173	4,002	(4,134)	94,041
Equities	23,585	5,865	(1,177)	28,273
Fixed income securities	314,304	10,828	(1,927)	323,205
	$ 707,212	$ 44,186	$ (9,623)	$ 741,775
2015				
Cash and cash equivalents	$ 53,868	$ -	$ -	$ 53,868
Mutual funds	178,470	27,189	-	205,659
Real estate funds	22,058	4,163	-	26,221
Hedge funds	94,138	8,784	(207)	102,715
Equities	33,599	10,254	(1,575)	42,278
Fixed income securities	324,089	8,540	(2,345)	330,284
	$ 706,222	$ 58,930	$ (4,127)	$ 761,025

At June 30, 2016, 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	$ 37,086	$ 37,086	$ -	$ -	$ -
Mutual funds	259,872	259,872	-	-	-
Real estate funds	27,070	27,070	-	-	-
Hedge funds	94,040	94,040	-	-	-
Government and agencies	105,141	12,563	55,275	17,424	19,879
Corporate bonds	101,957	12,843	69,046	12,003	8,065
Domestic fixed income	88,869	2,067	11,908	12,600	62,294
	714,035	$ 445,541	$ 136,229	$ 42,027	$ 90,238
Equities	27,740				
Total fair value	$ 741,775				

At June 30, 2015, 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	$ 53,868	$ 53,868	$ -	$ -	$ -
Mutual funds	205,659	205,659	-	-	-
Real estate funds	26,221	26,221	-	-	-
Hedge funds	102,688	102,688	-	-	-
Government and agencies	130,276	23,268	75,917	16,542	14,549
Corporate bonds	93,701	15,888	58,036	11,968	7,809
Domestic fixed income	101,181	-	19,309	10,171	71,701
Foreign fixed income	5,153	-	236	2,975	1,942
	718,747	$ 427,592	$ 153,498	$ 41,656	$ 96,001
Equities	42,278				
Total fair value	$ 761,025				

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 naturals. 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):

		2016		2015
Included in the following consolidated statement of net position captions:				
Short-term investments	$	188,466	$	226,758
Current portion of board designated and funds held by trustee		15,472		9,298
Board designated, funds held by trustee, and restricted assets, less current portion		537,837		524,969
Total carrying amount of deposits and investments	$	741,775	$	761,025

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, 2016 and 2015, 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 per share of the fund. The NAV of a pooled or collective investment fund is calculated based on a compilation of primarily observable market information. The number of units of the fund that are outstanding on the calculation date is derived from observable purchase and redemption activity in the fund.

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

Partnership: The valuation of partnership interests may require significant management judgment. 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.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of net position measured at fair value on a recurring basis and the level within the GASB 72 fair value hierarchy in which the fair value measurements fall at June 30 (in thousands):

Description	Level 1	Level 2	Level 3	2016
Investments by fair value level				
Asset backed securities				
Corporate backed obligations	$ -	$ 29,898	$ -	$ 29,898
Corporate bonds	-	2,034	-	2,034
Mortgage backed obligations	-	22,919	-	22,919
U.S. government mortgage pool	-	41,696	-	41,696
Common stock				
ADR & U.S. foreign stock	-	2,338	-	2,338
Corporate bonds	12,067	1,597	-	13,664
Financial services industry	1,461	-	-	1,461
Healthcare industry	2,671	751	-	3,422
Mortgage backed obligations	1,444	-	-	1,444
Telecommunication services	1,182	-	-	1,182
Other	4,316	859	-	5,175
Corporate, municipal and foreign bonds				
Corporate bonds	-	102,253	-	102,253
Private placements	-	17,973	-	17,973
U.S. government mortgage pool	-	1,227	-	1,227
U.S. treasury notes and bonds	-	1,324	-	1,324
Other	-	338	-	338
Municipal taxable	-	4,521	-	4,521
Mutual funds				
Corporate backed obligations	41,661	-	-	41,661
Corporate bonds	107,740	-	-	107,740
Mortgage backed obligations	9,146	-	-	9,146
Mutual funds - equity	69,620	-	-	69,620
Mutual funds - taxable	13,518	-	-	13,518
U.S. Government securities				
Government agencies	-	790	-	790
U.S. treasury notes and bonds	64,758	-	-	64,758
Partnership	-	-	27,070	27,070
Total investments by fair value level	$ 329,584	$ 230,518	$ 27,070	587,172
Cash equivalents				42,350
Investments measured at NAV				
Pooled, common & collective trusts				17,092
Equity, hedge funds				32,645
Credit hedge funds				19,368
Macro hedge funds				24,506
Relative value hedge funds				17,521
Fixed income limited partnership				1,121
Total investments measured at NAV				112,253
Total investments				$ 741,775

Description	Level 1	Level 2	Level 3	2015
Investments by fair value level				
Asset backed securities				
Corporate backed obligations	$ -	$ 39,441	$ -	$ 39,441
Corporate bonds	-	9,099	-	9,099
Mortgage backed obligations	-	29,620	-	29,620
U.S. government mortgage pool	-	37,159	-	37,159
Common stock				
ADR & U.S. foreign stock	-	6,298	-	6,298
Consumer discretionary	3,436	-	-	3,436
Corporate bonds	-	945	-	945
Financial services industry	7,627	-	-	7,627
Healthcare industry	8,703	-	-	8,703
Information technology	6,165	-	-	6,165
Industrials	4,533	-	-	4,533
Telecommunication services	2,032	-	-	2,032
Other	3,484	-	-	3,484
Corporate, municipal and foreign bonds				
Corporate bonds	-	112,715	-	112,715
Private placements	-	14,618	-	14,618
Municipal taxable	-	4,694	-	4,694
Other	-	171	-	171
Mutual funds				
Corporate bonds	221	-	-	221
Mutual funds - equity	205,437	-	-	205,437
Mutual funds - taxable	3,509	-	-	3,509
U.S. Government securities				
U.S. treasury notes and bonds	59,049	-	-	59,049
Partnership	-	-	28,140	28,140
Total investments by fair value level	$ 304,196	$ 254,760	$ 28,140	587,096
Cash equivalents				54,313
Investments measured at NAV				
Pooled, common & collective trusts				17,184
Equity, hedge funds				37,571
Credit hedge funds				20,704
Macro hedge funds				23,833
Relative value hedge funds				19,124
Fixed income limited partnership				1,200
Total investments measured at NAV				119,616
Total investments				$ 761,025

The following table provides the fair value and redemption terms and restrictions for investments redeemable NAV at June 30, 2016 (in thousands):

	2016 Fair value	2015 Fair value	Unfunded Commitment	Redemption Frequency	Redemption Notice
Pooled, common & collective trusts	$ 17,092	$ 17,184	$ -	Monthly	30 days
Equity Hedge Funds	32,645	37,571	-	Quarterly	90 days
Credit Hedge Funds	19,368	20,704	-	Monthly, Quarterly	15 - 60 days
Macro Hedge Funds	24,506	23,833	-	Monthly, Quarterly	5 - 90 days
Relative Value Hedge Funds	17,521	19,124	-	Quarterly, Annually	45 days
Fixed income limited partnership	1,121	1,200	-	Monthly	1 day
Total investments measured at NAV	$ 112,253	$ 119,616			
Partnership	$ 27,070	$ 28,140	$ 8,218	n/a	n/a

Pooled, common & collective trusts - includes investments in 1 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 7 hedge funds that employ both long and short strategies primarily in US common stocks. Equity hedge strategies typically have a directional bias (long or short) and trade in equities and equity related derivatives. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 11% 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 3 hedge funds that is comprised of distressed securities, credit long/short, emerging market debt and credit event driven. Credit hedge strategies typically have a directional bias and involve the purchase of various types of debt, equity, trade claims and fixed income securities. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 76% of the value of the investments in this type include restrictions that do not allow for redemptions in the first year after acquisition and other imposed gates.

Macro Hedge Funds - includes investments in 4 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 3 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, except for 1 investment, calculated based upon a percentage of limited partnership interest. Inputs used to determine fair value include financial statements provided by the investment partnership, which typically include fair market value of capital account balances. Investments representing approximately 67% 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.

Partnership - investments in closed-end, commitment based private equity real estate partnerships. The valuation of partnership interests in these funds may require significant management judgment. 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, 2016, is as follows (in thousands):

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated				
Land	$ 55,130	$ 28,332	$ -	$ 83,462
Construction in progress	46,318	-	481	45,837
	101,448	28,332	481	129,299
Capital assets being depreciated				
Land improvement	13,872	-	-	13,872
Buildings	733,423	26,460	4,672	755,211
Capital equipment	330,050	38,936	31,645	337,341
	1,077,345	65,396	36,317	1,106,424
Less accumulated depreciation for				
Land improvement	7,414	820	-	8,234
Buildings	240,233	22,742	4,671	258,304
Capital equipment	232,710	25,489	32,141	226,058
	480,357	49,051	36,812	492,596
Total capital assets being depreciated, net	596,988	16,345	(495)	613,828
Total capital assets, net	$ 698,436	$ 44,677	$ (14)	$ 743,127

Capital assets activity for the year ended June 30, 2015, is as follows (in thousands):

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated				
Land	$ 55,130	$ -	$ -	$ 55,130
Construction in progress	24,404	21,914	-	46,318
	79,534	21,914	-	101,448
Capital assets being depreciated				
Land improvement	13,872	-	-	13,872
Buildings	723,628	11,733	1,938	733,423
Capital equipment	283,813	47,410	1,173	330,050
	1,021,313	59,143	3,111	1,077,345
Less accumulated depreciation for				
Land improvement	6,505	909	-	7,414
Buildings	220,318	20,628	713	240,233
Capital equipment	210,374	23,376	1,040	232,710
	437,197	44,913	1,753	480,357
Total capital assets being depreciated, net	584,116	14,230	1,358	596,988
Total capital assets, net	$ 663,650	$ 36,144	$ 1,358	$ 698,436

Construction contracts of approximately $153,443,000 exist for the construction of various projects including upgrading the Los Gatos campus, and Los Gatos seismic upgrades. At June 30, 2016, the remaining commitment on these contracts approximated $71,516,000.

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:

	2016	2015
Active	2,706	2,677
Retirees and beneficiaries	481	460
Vested terminated	924	897
Total participants	4,111	4,034

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):

Deferred outflows of resources	2016		2015	
Deferred outflows of resources as of June 30:				
Difference between expected and actual experience	$	414	$	519
Changes in assumptions		636		799
Difference between projected and actual investment earnings		8,900		1,336
Total	$	9,950	$	2,654
Deferred inflows of resources as of June 30:				
Difference between expected and actual experience	$	(1,236)	$	-
Changes in assumptions		(1,656)		-
Difference between projected and actual investment earnings		-		-
Total	$	(2,892)	$	-
Contributions between the measurement date and fiscal year end recognized as a deferred outflow of resources	$	5,100	$	7,200

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

Future Years' Recognition of		
2017	$	1,995
2018		1,995
2019		1,995
2020		1,639
2021		(564)

The following table summarizes changes in pension liability for fiscal year ended June 30, 2016 and 2015, with a measurement date of December 31, 2015 and 2014, respectively, (in thousands):

Total pension liability		**2016**		**2015**
Service cost	$	8,411	$	7,757
Interest		11,509		10,892
Changes of benefit terms		-		-
Differences between expected and actual experience		(1,484)		625
Changes of assumptions		(1,990)		961
Benefit payments		(11,252)		(9,982)
Net change in total pension liability		5,194		10,253
Total pension liability beginning of fiscal year		188,954		178,701
Total pension liability end of fiscal year	$	194,148	$	188,954

		2016 with Measurement Date of 12/31/2015		**2015 with Measurement Date of 12/31/2014**
Total pension liability	$	194,148	$	188,954
Plan fiduciary net position		216,799		213,281
Net pension liability	$	(22,651)	$	(24,327)
Plan's fiduciary net position as a percentage of total pension liability		111.67%		112.87%
Covered payroll	$	283,776	$	266,844
Net pension liability as a percentage of covered payroll		-7.98%		-9.12%
Contributions between the measurement date and year ended June 30, 2016 as deferred outflow of resources	$	5,100	$	7,200

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2016 and 2015:

Assumptions	
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
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions	
Projected Salary Increases	4.00%
Mortality	Based on the RE-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and project with Mortality Improvement Scale MP-2015
Discount Rate	6.00%

Sensitivity of the Net Pension Liability (in thousands):

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Net Pension Liability (Asset) as of December 31, 2015	$ (12)	$ (22,651)	$ (41,400)
Net Pension Liability (Asset) as of December 31, 2014	$ (1,653)	$ (24,327)	$ (43,223)

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 $9,853,000 and $9,183,000 in 2016 and 2015, 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 liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The actuarial valuation was determined using the following assumptions:

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 – POSTRETIREMENT 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. As of June 30, 2016 and 2015, approximately 381 and 413 employees and former employees, respectively, were eligible to participate in the plan. For the fiscal years ended June 30, 2016 and 2015, the Hospital contributed $592,000 and $525,000, respectively, to fund benefits paid in those years.

The Hospital's annual postretirement benefit cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with parameters of GASB Codification Section P50, *Postemployment Benefits Other Than Pension Benefits - Employer Reporting*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Hospital's annual postretirement benefit cost, the amount actually contributed to the plan, and the changes in the Hospital's postretirement benefit obligation (in thousands):

	2016	2015
Annual required contribution	$ 1,946	$ 1,711
Interest on postretirement benefit obligation	731	692
Adjustment to annual required contribution	(1,025)	(971)
Annual postretirement benefit expense	1,652	1,432
Employer contributions	(593)	(525)
Increase in accumulated benefit obligation	$ 1,059	$ 907
Postretirement benefit obligation, beginning of the year	$ 17,197	$ 16,290
Postretirement benefit obligation, end of the year	$ 18,256	$ 17,197

The Hospital's annual postretirement benefit cost, the percentage of annual postretirement benefit cost contributed to the plan, and the postretirement benefit obligation for 2016 and the two preceding years were as follows (in thousands):

Fiscal Year Ended	Annual Postretirement Benefit Expense	Percentage of Annual Postretirement Benefit Expense Contributed	Postretirement Benefit Obligation
June 30, 2014	$ 1,984	26.51%	$ 16,290
June 30, 2015	$ 1,432	36.66%	$ 17,197
June 30, 2016	$ 1,652	35.90%	$ 18,256

As of July 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $25,665,000, resulting in an unfunded actuarial accrued liability ("UAAL") of $26,069,000. The covered payroll (annual payroll of active employees covered by the plan) was $38,411,000, and the ratio of the UAAL to the covered payroll was 66.82%.

The measurement date for the baseline actuarial analysis as of June 30, 2016 and 2015, is July 1, 2015 and June 30, 2013, respectively. For measurement purposes, annual rates of increase in the per capita cost of covered healthcare benefits of 9% were assumed for both fiscal years 2016 and 2015. The rate was assumed to decrease gradually to 4.5% over the next six years and remain at that level thereafter as of June 30, 2016 and June 30, 2015. The dental benefit trend rate was assumed to be 4.5% in all future years for 2016 and 2015, respectively. The discount rate used was 4.25% for both 2016 and 2015. The UAAL is being amortized as a level percentage over 30 years on an open basis.

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, 2016	June 30, 2015
El Camino Hospital District 2006		
General Obligation Bonds		
Principal	$ 136,280	$ 138,345
Unamortized premium	180	353
El Camino Hospital Revenue Bonds		
Series 2009		
Principal	50,000	50,000
Series 2015A		
Principal	154,980	160,455
Unamortized premium	16,041	17,466
Total long-term debt	357,481	366,619
Less current maturities	8,145	7,713
Maturities due after one year	$ 349,336	$ 358,906

	2016			
	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
General obligation bonds	$ 138,698	$ -	$ 2,238	$ 136,460
Revenue bonds	227,921	-	6,900	221,021
	$ 366,619	$ -	$ 9,138	$ 357,481

	2015			
	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
General obligation bonds	$ 140,533	$ -	$ 1,835	$ 138,698
Revenue bonds	181,452	177,921	131,452	227,921
	$ 321,985	$ 177,921	$ 133,287	$ 366,619

General obligation bonds – Upon voter approval, in November 2003, the District issued in 2006, $148,000,000 principal amount of General Obligation Bonds, which consists of $115,665,000 of Current Interest Bonds, and $32,335,000 of Capital Appreciation 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.

The Current Interest Bonds maturing on or before August 1, 2016, are not subject to redemption. 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.

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. 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 2015 – 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.

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 April 2017 and requires the Hospital to maintain a long-term debt service coverage ratio of 1.20 to 1. In October of 2016, the Letter of Credit was extended to expire in October of 2019.

Interest costs – Interest costs incurred for the years ended June 30, 2016 and 2015, are (in thousands):

	June 30, 2016	June 30, 2015
Operating expense	$ 6,368	$ 4,904
Nonoperating expense	4,523	4,604
	$ 10,891	$ 9,508

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

Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2017	$ 2,485	$ 4,690	$ 3,635	$ 7,224
2018	2,950	4,578	53,735	7,115
2019	3,440	4,460	3,850	7,003
2020	4,005	4,288	3,965	6,887
2021	4,615	4,088	4,125	6,729
2022-2026	21,372	29,011	23,490	29,500
2027-2031	18,368	45,886	27,975	25,301
2032-2036	60,995	20,740	32,530	16,791
2037-2041	18,050	803	37,725	8,161
2042-2046	-	-	13,950	2,075
	$ 136,280	$ 118,544	$ 204,980	$ 116,786

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 $11,041,000 at June 30, 2016, and $7,827,000 at June 30, 2015, 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):

	2016	2015
Charity and other	$ 11,599	$ 7,460
Endowments	2,658	2,185
Restricted by donor for specific uses	14,257	9,645
Restricted by Department of Managed Health Care	50	50
Total restricted net position	$ 14,307	$ 9,695

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 81, the Foundation recognizes an asset and a deferred inflow of resources when it becomes aware of the agreements and has sufficient information to measure the beneficial interest, in accordance with the asset recognition criteria in GASB 81. The beneficial interest asset is measured at fair value, which is estimated as the present value of the expected future cash flows from trusts. The applicable federal discount rate for June 2016 and June 2015 of 1.8% and 3.14% per annum 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, 2016 and 2015, the Foundation has a payable to the Hospital in the amount of $523,000 and $334,000, respectively. During the fiscal years 2016 and 2015, the Foundation paid the Hospital $2,881,000 and $3,586,000 for such expenses, respectively, which included amounts for operations, but also disbursements from Donor Restricted Funds in support of Hospital operations and capital acquisitions.

In June 2012, the Hospital Board approved the funding of the Foundation's salaries, wages, and benefits for fiscal year 2016 and 2015, thus along with the 2012 fiscal year approved funding of the Foundation's rent provided a maximum funding of $1,783,000 for both items on an ongoing basis. All related party transactions are eliminated upon consolidation.

Effective May 6, 2013, ECSC sold certain medical equipment, furnishings, fixtures, inventories, and other tangible personal property in exchange for a seven and one half percent (7.5%) interest in El Camino Ambulatory Surgery Center, ("ECASC"). As of March 2015, ECSCs' interest in ECASC has change to 33.4%. ECSC has provided a working capital line of credit to ECASC in a principal amount of $750,000 represented by a Promissory Note and has a term of 39 months with an interest rate of 5% per annum. At June 30, 2016 and June 30, 2015, there was a total draw of $484,500, and $414,000 against the line of credit, respectively. On August 29, 2016, this line of credit was paid off.

The Hospital leases the space to ECASC and provides certain services, such as utilities and building/equipment maintenance. There was $702,000 of rental income recorded for the year ended June 30, 2016, and $717,000 of rental income recorded for the year ended June 30, 2015, 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, 2016 (in thousands):

	Operating Lease Commitments	Lease Income	Net Lease Benefit
2017	$ 2,244	$ 9,260	$ 7,016
2018	2,260	7,712	5,452
2019	2,264	3,576	1,312
2020	2,283	2,478	195
2021	1,999	1,480	(519)
Thereafter	27,005	1,452	(25,553)
	$ 38,055	$ 25,958	$ (12,097)

Total rental expense in 2016 and 2015 for all operating leases was approximately $2,072,000 and $1,657,000, 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. All required seismic upgrades to make the Los Gatos site in seismic compliance to 2030 were completed during 2015.

NOTE 15 – HEALTH CARE REFORM

On March 23, 2010, the Patient Protection and Affordable Care Act ("PPACA") was signed into law. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the healthcare industry, including a significant expansion of healthcare coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide healthcare coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the healthcare reform legislation were effective immediately; others will be phased in through 2016. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the District. The effect of the changes that will be required in future years are not determinable at this time.

NOTE 16 – SUBSEQUENT EVENTS

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

The Corporation and Professional Resources for Nurses ("PRN") have been in negotiations since February 2016 for a new contract to replace or extend the current agreement. During negotiations, PRN extended the contract through September 15, 2016. While the contract has expired, its terms and conditions remain in place. The Hospital and PRN engaged an independent mediator and a tentative agreement reached in September. However, the tentative agreement was not ratified by a majority of union members. The mediator will report his recommendations and the Fact Finding process will continue in October 2016 as both the Hospital and PRN continue to work toward an agreement.

In October 2016, the Letter of Credit for 2009 Series Revenue bonds was extended through October 2019.

SUPPLEMENTARY INFORMATION

(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								
Current assets								
Cash and cash equivalents	$ 2,694	$ 59,169	$ 23	$ 1,003	$ 363	$ 170	$ -	$ 63,422
Short-term investments	4,861	168,833	1,730	13,042	-	-	-	188,466
Current portion of board designated and funds held by trustee	15,472	-	-	-	-	-	-	15,472
Patient accounts receivable, net of allowances								
for doubtful accounts of $25,927	-	120,960	-	610	-	-	-	121,570
Prepaid expenses and other current assets	80	23,596	108	233	484	123	(2,444)	22,180
Total current assets	23,107	372,558	1,861	14,888	847	293	(2,444)	411,110
Non-current cash and investments								
Board-designated funds	9,679	456,406	25,409	-	-	-	-	491,494
Restricted funds	-	-	-	50	-	-	-	50
Funds held by trustee	15,452	30,841	-	-	-	-	-	46,293
	25,131	487,247	25,409	50	-	-	-	537,837
Capital assets, net	11,449	731,525	68	75	-	10	-	743,127
Pledges receivable, net of current portion	-	-	2,683	-	-	-	-	2,683
Prepaid pension asset	-	22,651	-	-	-	-	-	22,651
Investments in health care affiliates	-	31,627	-	-	1,541	-	(2,699)	30,469
Beneficial interest in charitable remainder unitrust	-	-	3,596	-	-	-	-	3,596
Total assets	59,687	1,645,608	33,617	15,013	2,388	303	(5,143)	1,751,473
Deferred outflows of resources								
Loss on defeasance of bond payable	-	14,764	-	-	-	-	-	14,764
Deferred outflows of resources	-	5,100	-	-	-	-	-	5,100
Deferred outflows - actuarial	-	9,950	-	-	-	-	-	9,950
Total deferred outflows	-	29,814	-	-	-	-	-	29,814
Total assets and deferred outflows	$ 59,687	$ 1,675,422	$ 33,617	$ 15,013	$ 2,388	$ 303	$ (5,143)	$ 1,781,287

(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 AND NET POSITION								
Current liabilities								
Accounts payable and accrued expenses	$ -	$ 28,149	$ -	$ 798	$ 22	$ 29	$ (25)	$ 28,973
Salaries, wages, and related liabilities	-	48,575	-	462	-	16	-	49,053
Other current liabilities	3,107	13,310	1,041	1,715	-	-	(2,419)	16,754
Estimated third-party payor settlements	-	11,314	-	-	-	-	-	11,314
Current portion of bonds payable	2,663	5,482	-	-	-	-	-	8,145
Total current liabilities	5,770	106,830	1,041	2,975	22	45	(2,444)	114,239
Bonds payable, net of current portion	133,797	215,539	-	-	-	-	-	349,336
Other long-term obligations	-	13,955	-	-	-	-	-	13,955
Workers' compensation, net of current portion	-	20,009	-	-	-	-	-	20,009
Post-retirement medical benefits, net of current portion	-	18,256	-	-	-	-	-	18,256
Total liabilities	139,567	374,589	1,041	2,975	22	45	(2,444)	515,795
Deferred inflows of resources								
Deferred inflows of resources	-	-	3,596	-	-	-	-	3,596
Deferred inflows of resources - actuarial	-	2,892	-	-	-	-	-	2,892
Total deferred inflows of resources	-	2,892	3,596	-	-	-	-	6,488
Net position								
Invested in capital assets, net of related debt	(94,087)	541,345	68	75	-	-	-	447,401
Restricted - expendable	-	-	11,599	-	-	-	-	11,599
Restricted - nonexpendable	-	-	2,658	50	-	-	-	2,708
Unrestricted	14,207	756,596	14,655	11,913	2,366	258	(2,699)	797,296
Total net position	(79,880)	1,297,941	28,980	12,038	2,366	258	(2,699)	1,259,004
Total liabilities, deferred inflows of resources, and net position	$ 59,687	$ 1,675,422	$ 33,617	$ 15,013	$ 2,388	$ 303	$ (5,143)	$ 1,781,287

EL CAMINO HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2016
(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 $18,966)	$ -	$ 772,020	$ -	$ -	$ -	$ 153	$ -	$ 772,173
Other revenue	88	23,636	-	13,183	15	-	(2,685)	34,237
Total operating revenues	88	795,656	-	13,183	15	153	(2,685)	806,410
Operating expenses								
Salaries, wages and benefits	-	435,184	1,430	3,452	-	85	(274)	439,877
Professional fees and purchased services	413	98,019	1,204	7,128	52	156	(134)	106,838
Supplies	-	117,988	107	-	1	-	-	118,096
Depreciation and amortization	253	48,748	45	5	-	-	-	49,051
Rent and utilities	-	15,389	13	346	-	9	(88)	15,669
Other	-	25,487	134	347	(49)	-	(95)	25,824
Total operating expenses	666	740,815	2,933	11,278	4	250	(591)	755,355
(Loss) income from operations	(578)	54,841	(2,933)	1,905	11	(97)	(2,094)	51,055
Nonoperating revenues (expenses):								
Investment income (expense), net	441	(1,697)	741	593	(292)	-	-	(214)
Property tax revenue								
Designated for community benefit programs and operating expenses	7,626	-	-	-	-	-	-	7,626
Designated for capital expenditures	6,171	-	-	-	-	-	-	6,171
Levied for debt service	9,836	-	-	-	-	-	-	9,836
Bond interest expense	(4,523)	-	-	-	-	-	-	(4,523)
Intergovernmental transfer expense	(802)	-	-	-	-	-	-	(802)
Restricted gifts, grants and bequests, and other, net of contributions to related parties	-	-	6,815	-	-	-	223	7,038
Unrealized loss on interest rate swap	-	(3,214)	-	-	-	-	-	(3,214)
Community benefit expense	(5,986)	(2,716)	-	-	-	-	2,653	(6,049)
Other, net	-	(2,891)	-	(675)	-	250	511	(2,805)
Total nonoperating revenues (expenses)	12,763	(10,518)	7,556	(82)	(292)	250	3,387	13,064
Excess (deficit) of revenues over expenses before capital transfers	12,185	44,323	4,623	1,823	(281)	153	1,293	64,119
Capital transfers	217	1,365	(196)	(1,386)	-	-	-	-
Increase (decrease) in net position	12,402	45,688	4,427	437	(281)	153	1,293	64,119
Total net (deficit) position, beginning of year	(92,282)	1,252,253	24,553	11,601	2,647	105	(3,992)	1,194,885
Total net (deficit) position, end of year	$ (79,880)	$ 1,297,941	$ 28,980	$ 12,038	$ 2,366	$ 258	$ (2,699)	$ 1,259,004

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

Total pension liability	**2016**	**2015**
Service cost	$ 8,411	$ 7,757
Interest	11,509	10,892
Changes of benefit terms	-	-
Differences between expected and actual experience	(1,484)	625
Changes of assumptions	(1,990)	961
Benefit payments	(11,252)	(9,982)
Net change in total pension liability	5,194	10,253
Total pension liability beginning of fiscal year	188,954	178,701
Total pension liability end of fiscal year	$ 194,148	$ 188,954

Plan fiduciary net position	**2016**	**2015**
Contributions	$ 12,000	$ 13,800
Net investment income	2,941	10,388
Benefit payments, including refunds of member contributions	(11,252)	(9,983)
Administrative expenses	(171)	-
Net change in Plan fiduciary net position	3,518	14,205
Plan fiduciary net position beginning of fiscal year	213,281	199,076
Plan fiduciary net position end of fiscal year	216,799	213,281
Plan's net pension liability end of the fiscal year	$ (22,651)	$ (24,327)
Covered payroll	$ 283,776	$ 266,844
Net pension liability as a percentage of covered payroll	-7.98%	-9.12%
Contributions	$ 5,100	$ 7,200

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

	FY2016	FY2015	FY2014	FY2013	FY2012
Actuarially determined contribution	2,735	0	8,463	7,613	1,400
Contributions related to actuarially determined contribution	5,300	10,800	14,400	12,000	11,005
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	283,776	266,844	242,343	223,754	208,910
Contribution as % of covered payroll	1.87%	4.05%	5.94%	5.36%	5.27%
Contributions made during the fiscal year	9,900	14,400	12,600	23,610	11,249

	FY2011	FY2010	FY2009	FY2008	FY2007
Actuarially determined contribution	12,023	7,156	4,656	279	3,078
Contributions related to actuarially determined contribution	19,811	7,644	9,200	10,000	11,731
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	205,693	178,937	149,694	133,582	121,525
Contribution as % of covered payroll	9.63%	4.27%	6.15%	7.49%	9.65%
Contributions made during the fiscal year	5,400	18,100	6,300	9,500	7,431

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 postretirement benefit information – The following table summarizes the funding status of the Hospital's postretirement medical benefit plan (in thousands):

Fiscal Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded Actuarial Accrued Liability UAAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Assets in Excess/ (Shortfall) of UAAL as a Percentage of Covered Payroll ((a-b)/c)
2014	$ -	$ 22,518	$ (22,518)	0.0%	$ 44,426	-50.7%
2015	$ -	$ 25,795	$ (25,795)	0.0%	$ 40,733	-63.3%
2016	$ -	$ 26,069	$ (26,069)	0.0%	$ 38,411	-67.9%

The following table summarizes the calculation of the net benefit obligation for the Hospital's postretirement medical benefit plan (in thousands):

Fiscal Year	Beginning of Year Net Benefit Obligation (a)	Annual Required Contribution (b)	Actual Contribution (c)	Annual Postretirement Benefit Cost (d)	Increase in Net Benefit Obligation (d-c)	End of Year Net Benefit Obligation ((a)+(d-c))
2014	$ 15,541	$ 1,683	$ 526	$ 1,274	$ 749	$ 16,290
2015	$ 16,290	$ 1,433	$ 525	$ 1,432	$ 907	$ 17,197
2016	$ 17,197	$ 1,652	$ 593	$ 1,652	$ 1,059	$ 18,256

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, 2016 and 2015, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows (in thousands):

	2016	2015
Unpaid costs of Medi-Cal programs	$ 22,362	$ 22,038
Indigent charity care	2,290	1,708
	24,652	23,746
Other community-based programs		
Dialysis	-	2,167
Psychiatric	5,915	4,797
Clinical trial	295	255
Ambulatory care	10,071	6,919
Community health center	1,860	1,700
Psychiatric outpatient	3,895	2,703
Total other community-based programs	22,036	18,541
Total community benefits	$ 46,688	$ 42,287

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 $102,105,000 and $85,710,000 for the years ended June 30, 2016 and 2015, 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 2016 and 2015, these volunteers contributed approximately 106,000 hours, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.