



May 9, 2019

**NOTICE**

The Kaweah Delta Health Care District Board of Directors will meet in an Audit and Compliance Committee meeting at 2:30 PM on Wednesday, May 15, 2019 in the Kaweah Delta Medical Center – Acequia Wing – Executive Office Conference Room {400 W. Mineral King, Visalia}.

The Board of Directors of the Kaweah Delta Health Care District will meet in a Closed Audit and Compliance Committee meeting immediately following the 2:30 PM meeting on Wednesday, May 15, 2019 in the Kaweah Delta Medical Center – Executive Office - Acequia Wing Conference Room {400 W. Mineral King, Visalia} pursuant to Government Code 54956.9(d)(2).

All Kaweah Delta Health Care District regular board meeting and committee meeting notices and agendas are posted 72 hours prior to meetings in the Kaweah Delta Medical Center, Mineral King Wing entry corridor between the Mineral King lobby and the Emergency Department waiting room.

The disclosable public records related to agendas are available for public inspection at the Kaweah Delta Medical Center – Acequia Wing, Executive Offices (Administration Department) {1st floor}, 400 West Mineral King Avenue, Visalia, CA and on the Kaweah Delta Health Care District web page <http://www.kaweahdelta.org>.

KAWEAH DELTA HEALTH CARE DISTRICT  
Nevin House, Secretary/Treasurer

A handwritten signature in black ink that reads 'Cindy Moccio'.

Cindy Moccio  
Board Clerk  
Executive Assistant to CEO

DISTRIBUTION:  
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<http://www.kaweahdelta.org/about/agenda.asp>

# KAWEAH DELTA HEALTH CARE DISTRICT BOARD OF DIRECTORS AUDIT AND COMPLIANCE COMMITTEE

Wednesday, May 15, 2019

Kaweah Delta Medical Center – Acequia Wing  
400 West Mineral King Avenue, Visalia CA  
Executive Office Conference Room

**ATTENDING:** Directors; Herb Hawkins (Chair) & Lynn Havard Mirviss; Gary Herbst, CEO; Tom Rayner, Senior VP Chief Operating Officer; Malinda Tupper, VP Chief Financial Officer; Regina Sawyer, VP Chief Nursing Officer; Dennis Lynch, Legal Counsel; Ben Cripps, Compliance and Privacy Officer; Suzy Plummer, Director of Internal Audit; Sravan Sharma, Compliance Manager; Lisa Wass, Compliance Analyst

**Guests:** Dianne Cox, VP Human Resources; Jennifer Stockton, Director of Finance; Lori Mulliniks, Finance and Accounting Manager; Abigail Pike, Moss Adams; Brian Conner, Moss Adams; Jean Born, Director of Human Resources;

## **OPEN MEETING – 2:30 PM**

**Call to order** – Herb Hawkins, Audit and Compliance Committee Chair

**Public / Medical Staff participation** – Members of the public wishing to address the Committee concerning items not on the agenda and within the subject matter jurisdiction of the Committee may step forward and are requested to identify themselves at this time. Members of the public or the medical staff may comment on agenda items after the item has been discussed by the Committee but before a Committee recommendation is decided. In either case, each speaker will be allowed five minutes.

1. **Fiscal Year 2018 Pension Plan Audited Financial Statements** – Review of the Fiscal Year 2018 Pension Plan Audited Financial Statement {[Communication with Governance – Retirement Plan](#), [Management Discussion and Analysis](#)} – *Abbie Pike & Brian Conner, Moss Adams*
2. **401(k) Plan Financial Statement Audit Kick Off** – *Abbie Pike & Brian Conner, Moss Adams*
3. **Written Reports** – Committee review and discussion of written reports
  - 3.1 [Compliance Program Activity Report](#) – *Ben Cripps*
4. **Verbal Reports**
  - 4.1 Compliance Program – Provide an update on the status of Compliance Program activity – *Ben Cripps*

4.2 Internal Audit Update – Provide an update on the status of Internal Audit activity –  
*Suzy Plummer*

**5. Approval of Closed Meeting Agenda** – Kaweah Delta Medical Center Acequia Wing –  
Executive Office Conference Room – immediately following the open meeting

- o Conference with Legal Counsel – Anticipated Litigation  
Significant exposure to litigation pursuant to Government Code 54956.9(d)(2) (10 cases) – *Ben Cripps and Dennis Lynch (Legal Counsel)*

**Adjourn Open Meeting** – Herb Hawkins, *Audit and Compliance Committee Chair*

**CLOSED MEETING – Immediately following the 2:30 PM open meeting**

**Call to order** – Herb Hawkins, *Audit and Compliance Committee Chair*

1. **Conference with Legal Counsel - Anticipated Litigation** - Significant exposure to litigation pursuant to Government Code 54956.9(d)(2) (10 cases) – *Ben Cripps and Dennis Lynch (Legal Counsel)*

**Adjourn** – Herb Hawkins, *Audit and Compliance Committee Chair*

*In compliance with the Americans with Disabilities Act, if you need special assistance to participate at this meeting, please contact the Board Clerk (559) 624-2330. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to the Kaweah Delta Health Care District Board of Directors meeting.*



*Communications with Those Charged with Governance*

**Kaweah Delta Health Care District  
Employees' Retirement Plan**

*June 30, 2018*

## **Communications with Those Charged with Governance**

To the Audit Committee  
Kaweah Delta Health Care District Employees' Retirement Plan

We have audited the financial statements and supplementary information of Kaweah Delta Health Care District Employees' Retirement Plan (the Plan) as of and for the year ended June 30, 2018, and have issued our report thereon dated December 21, 2018. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated November 1, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. We considered the Plan's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

You should understand that our audit is not specifically designed for and should not be relied upon to disclose matters affecting plan qualifications or compliance with the California government code and Internal Revenue Code requirements.

## **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in the Public Retirement Systems Financial Transactions Report does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in this report. However, we have read the information contained in the report and nothing came to our attention that caused us to believe that such information or its manner of presentation is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

## **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter and planning discussions.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 2 to the financial statements.

No new accounting policies were adopted and there were no changes in the application of existing accounting policies during the year. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transactions occurred.

### ***Significant Accounting Estimates***

Accounting estimates may be an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates may be particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

Management used a single discount rate of 7.75% in the total pension liability calculation at June 30, 2018. The calculation assumes the District will make expected planned contributions of \$11.4 million each year from 2019 through 2026, and thereafter annually make the actuarially-determined contributions.

The calculation is also dependent upon the District's estimate that the pension plan assets will be invested using a strategy to achieve the assumed returns and cover expenses. A change in this discount rate would have a significant impact on the pension liability. We evaluated the key factors and assumptions used in determining that the projection supported using this rate and the rates were reasonable in relation to the financial statements taken as a whole.

Management updated the estimated mortality assumption to the scale recommended by the actuary for generational projection. The mortality assumption has a significant impact on the pension liability. We evaluated the assumption as reasonable.

Management estimated that the census data as of June 30, 2017 was reasonable for the actuary to use in projecting the pension liability to the measurement date of June 30, 2018. We evaluated the estimate as reasonable.

Management's estimate of the fair value of the alternative investments was based on the Net Asset Value (NAV) of the funds. The Plan invests in two alternative investments, which are valued by an independent administrator of the alternative investment funds using the monthly capital (NAV) statements from the master funds in which each alternative investments fund invests in. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

Management estimated that all Active Transfer participants (those electing out of the Plan in 2003) were fully vested for the actuarial liability valuation. We evaluated this assumption in determining that it is reasonable in relation to the financial statements taken as a whole.

### ***Financial Statement Disclosures***

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

The most sensitive disclosures affecting the financial statements were:

- Disclosure in Note 1 of the frozen future benefit accruals.
- Disclosure in Note 4 of the net pension liability, rates of return and sensitivity of the net pension liability to changes in the discount rate.
- Disclosure in Note 6 of investment credit risk. Management disclosed that substantially all Plan investments in corporate obligations were rated investment grade.
- Disclosure in Note 6 of the money-weighted rate of return.
- Disclosure in Note 4 and in Note 6 of the subsequent to year end change in plan investment strategy and asset allocation.

Management continued to conclude that the amendment in 2014 providing for a cash balance benefit to the CEO was not material for disclosure.

### ***Significant Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We did not note any material corrected or uncorrected misstatements in the course of the engagement.

***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated December 21, 2018.

***Management Consultation with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Significant Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the information and use of management, the Audit Committee, Retirement Committee, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

We were pleased to serve and be associated with the Plan as the independent auditors for 2018. We provide the above information to assist you in performing your oversight responsibilities.

*Moss Adams LLP*

Stockton, California  
April 16, 2019





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## **Kaweah Delta Health Care District Employees' Retirement Plan – June 30, 2018**

### **Communication with Those Charged With Governance**

Our responsibility under auditing standards generally accepted in the U.S.

Other information in documents containing audited financial statements – State Report

Planned scope and timing of the audit – as anticipated

Significant audit findings:

- Qualitative Aspects
  - ◆ No new accounting policies or changes in policies.
  - ◆ No significant transactions recognized in different period than occurred.
  - ◆ No transactions with lack of authoritative guidance
- Significant accounting estimates
  - ◆ Discount rate – single rate changed from 8% to 7.75%; assumes make contributions of \$11.4 million each year 2019 to 2026, and thereafter make actuarial determined contributions; assumes assets invested to achieve 7.75% rate of return
  - ◆ Mortality scale updated as recommended by actuary
  - ◆ Census data at 2017 projected to 2018
  - ◆ Fair value of alternative investments based on reported Net Asset Value
  - ◆ Active Transfers fully vested
- Significant financial statement disclosures – Note 1 plan frozen, Note 4 liability assumptions, sensitivity to rate change, Note 6 investment credit risk, and money-weighted rate of return, Note 4/Note 6 subsequent to year end change in plan investment strategy and assets allocation. Not disclosed 2014 amendment cash balance benefit.
- Other – There were no
  - ◆ Significant difficulties encountered in performing the audit
  - ◆ Significant corrected or uncorrected misstatements
  - ◆ Disagreements with management
- Management representations obtained
- Management consultation with other independent accountants – none to our knowledge

2017 Internal control related matters remediated

**Planning for 2019 audit** – Input on concerns, focus, risks.



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

**Kaweah Delta Health Care District  
Employees' Retirement Plan**

*June 30, 2018 and 2017*



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# Table of Contents

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|  |    |
|--|----|
| <b>REPORT OF INDEPENDENT AUDITORS</b> .....  | 1  |
| <b>MANAGEMENT DISCUSSION AND ANALYSIS</b> .....                                    | 4  |
| <b>FINANCIAL STATEMENTS</b>  |    |
| Statements of Fiduciary Net Position .....   | 9  |
| Statements of Changes in Fiduciary Net Position .....                              | 10 |
| Notes to Financial Statements .....  | 11 |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>  |    |
| Schedule of Changes in Net Pension Liability and Related Ratios (Schedule 1) ..... | 22 |
| Schedule of Employer Contributions (Schedule 2) .....                              | 23 |
| Schedule of Investment Returns (Schedule 3) .....                                  | 24 |

## **Report of Independent Auditors**

To the Trustees and Participants  
Kaweah Delta Health Care District  
Employees' Retirement Plan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Kaweah Delta Health Care District Employees' Retirement Plan (the "Plan"), which comprise the statements of fiduciary net position as of June 30, 2018 and 2017, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of June 30, 2018 and 2017, and the changes in fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 7 and the schedule of changes in net pension liability and related ratios, the schedule of employer contributions and the schedule of investment returns on pages 22 to 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express or provide any assurance.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Stockton, California  
December 21, 2018

## **Management Discussion and Analysis**

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# Kaweah Delta Health Care District Employees' Retirement Plan Management Discussion and Analysis

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Kaweah Delta Health Care District's (the "District") discussion and analysis of the financial activities of the Kaweah Delta Health Care District Employees' Retirement Plan (the "Plan") is designed to assist the reader in focusing on significant financial issues, provide an overview of the Plan's financial activity, and identify changes in the Plan's financial position for the years ended June 30, 2018 and 2017. Please read it in conjunction with the audited financial statements and supplementary information in this report.

## **FINANCIAL HIGHLIGHTS**

- Effective June 30, 2011, the Plan was amended to suspend all accruals and otherwise freeze benefits under the Plan.
- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The ratio of the Plan's fiduciary net position as a percentage of total pension liability increased to 84.9% as of June 30, 2018, the date of the Plan's last actuarial valuation, from 79.9% as of June 30, 2017.
- The Plan's net position increased by \$24.4 million, or 11.9%, in 2018, due to an increase in Plan contributions as well as an increase in net investment income resulting from strong market conditions.
- The Plan's additions to Plan net position, consisting of employer contributions and net investment income, totaled \$37.3 million in 2018 and \$33.3 million in 2017. The increase is attributable to a \$2.4 million increase in employer contributions as well as a \$1.6 million increase in net investment income, which fluctuates year-to-year depending on market conditions.
- The Plan's deductions from Plan net position, consisting of benefit payments and administrative expenses, totaled \$12.9 million in 2018, and \$11.6 million in 2017. The increase in 2018 is attributable to the increase in benefit payments.

## **REQUIRED FINANCIAL STATEMENTS**

The required financial statements include:

- the statement of fiduciary net position reports the Plan's assets, less liabilities, and the resulting net position restricted for future benefit payments. The Plan's net position is restricted to the payment of benefits as shown in the schedule of changes in net pension liability and related ratios;
- the statement of changes in fiduciary net position reports the sources and uses of funds during the year corresponding to the change in net position from the previous year;
- notes to the financial statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The statement of fiduciary net position and the statement of changes in fiduciary net position report information about the Plan's activities. These statements include all assets and liabilities, using the full accrual basis of accounting. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. All investments are stated at fair market value. Gains and losses are shown at trade date, not settlement date, and both realized and unrealized gains and losses on investments are shown.



# Kaweah Delta Health Care District Employees' Retirement Plan Management Discussion and Analysis

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the ongoing Plan perspective. The required supplementary information provides historical data and projected obligations that reflect the long-term nature of the Plan and trends over time, and includes:

- schedule of changes in the net pension liability and related ratios which contains the items contributing to the changes in the pension liability and Plan's net position. Ratios comparing the unfunded liability to the Plan's net position and covered-employee payroll are also provided;
- schedule of employer's contributions which contains a history of employer contributions made to the Plan;
- schedule of investment returns which contains a history of the Plan's investment performance on a money-weighted basis.

## FINANCIAL ANALYSIS

The table below provides summary information about the Plan's fiduciary net position.

|   | JUNE 30,              |                       |                       | 2018-2017            |              | 2017-2016            |              |
|---|-----------------------|-----------------------|-----------------------|----------------------|--------------|----------------------|--------------|
|   | 2018                  | 2017                  | 2016                  | \$<br>Change         | %<br>Change  | \$<br>Change         | %<br>Change  |
| <b>ASSETS</b>                                       |                       |                       |                       |                      |              |                      |              |
| Receivables   | \$ 330,668            | \$ 491,740            | \$ 326,101            | \$ (161,072)         | -32.8%       | \$ 165,639           | 50.8%        |
| Due from broker                                     | 254,343               | 232,562               | -                     | 21,781               | 9.4%         | 232,562              | N/A          |
| Investments,<br>at Fair Value                       | 229,335,590           | 204,767,492           | 183,503,656           | 24,568,098           | 12.0%        | 21,263,836           | 11.6%        |
| <b>TOTAL ASSETS</b>                                 | <b>229,920,601</b>    | <b>205,491,794</b>    | <b>183,829,757</b>    | <b>24,428,807</b>    | <b>11.9%</b> | <b>21,662,037</b>    | <b>11.8%</b> |
| <b>LIABILITIES</b>                                  |                       |                       |                       |                      |              |                      |              |
| Due to broker                                       | -                     | -                     | 48,813                | -                    | -            | (48,813)             | N/A          |
| <b>NET POSITION<br/>RESTRICTED<br/>FOR PENSIONS</b> |                       |                       |                       |                      |              |                      |              |
|   | <b>\$ 229,920,601</b> | <b>\$ 205,491,794</b> | <b>\$ 183,780,944</b> | <b>\$ 24,428,807</b> | <b>11.9%</b> | <b>\$ 21,710,850</b> | <b>11.8%</b> |

# Kaweah Delta Health Care District Employees' Retirement Plan Management Discussion and Analysis

The table below provides a summary of the changes in the Plan's net position during the years and reflects the activities of the Plan.

|   | YEARS ENDED JUNE 30, |                |                | 2018-2017     |             | 2017-2016     |             |
|---|----------------------|----------------|----------------|---------------|-------------|---------------|-------------|
|   | 2018                 | 2017           | 2016           | \$<br>Change  | %<br>Change | \$<br>Change  | %<br>Change |
| <b>ADDITIONS</b>                        |                      |                |                |               |             |               |             |
| Employer contributions                  | \$ 11,400,000        | \$ 9,000,000   | \$ 5,000,001   | \$ 2,400,000  | 26.7%       | \$ 3,999,999  | 80.0%       |
| Net investment income (loss)            | 25,924,510           | 24,286,375     | (1,142,050)    | 1,638,135     | 6.7%        | 25,428,425    | 2226.6%     |
| Total additions                         | 37,324,510           | 33,286,375     | 3,857,951      | 4,038,135     | 12.1%       | 29,428,424    | 762.8%      |
| <b>DEDUCTIONS</b>                       |                      |                |                |               |             |               |             |
| Benefit payments                        | 12,706,781           | 11,333,243     | 10,577,037     | 1,373,538     | 12.1%       | 756,206       | 7.1%        |
| Administrative expenses                 | 188,922              | 242,282        | 283,888        | (53,360)      | -22.0%      | (41,606)      | -14.7%      |
| Total deductions                        | 12,895,703           | 11,575,525     | 10,860,925     | 1,320,178     | 11.4%       | 714,600       | 6.6%        |
| Net increase (decrease) in net position | 24,428,807           | 21,710,850     | (7,002,974)    | 2,717,957     | 12.5%       | 28,713,824    | 410.0%      |
| <b>NET POSITION</b>                     |                      |                |                |               |             |               |             |
| <b>RESTRICTED FOR PENSIONS</b>          |                      |                |                |               |             |               |             |
| Beginning of year                       | 205,491,794          | 183,780,944    | 190,783,918    | 21,710,850    | 11.8%       | (7,002,974)   | -3.7%       |
| End of year                             | \$ 229,920,601       | \$ 205,491,794 | \$ 183,780,944 | \$ 24,428,807 | 11.9%       | \$ 21,710,850 | 11.8%       |

The Plan's fiduciary net position and funded status may serve over time as a useful indication of the Plan's financial position. The Plan's fiduciary net position increased by 11.9% in 2018 compared to 2017, primarily due to net appreciation in the fair value of investments and increased contributions. As of June 30, 2018, \$229,920,601 in fiduciary net position is held in trust for future pension benefits.

**Investments** – The investments of the Plan are governed by the “prudent investor rule.” The prudent investor rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund.

During 2018, total investments measured at fair market value increased \$24.6 million, or 12.0%, as compared to 2017 and had an overall return of 12.7%, which remains relatively constant to the 2017 return. The Plan's management compares the actual returns to published index benchmarks by category. The Plan's composite-weighted benchmark for 2018 was a return of 10.7% compared to the Plan's actual return of 12.7%. The Plan's composite-weighted benchmark for 2017 was 13.6% compared to the Plan's actual return of 13.2%.

The Plan invests funds for the long-term, anticipating both good and bad financial markets. Investments are diversified to reduce investment risk and mitigate the risk of underperforming the assumed actuarial rate of return. While for any particular year, market performance may not match the assumed actuarial rate of return, long-term returns are expected to be in line with the assumption based on the diversified nature of the portfolio.

# Kaweah Delta Health Care District Employees' Retirement Plan Management Discussion and Analysis

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**Additions to fiduciary net position** – The assets needed to finance retirement benefits are accumulated through employer contributions and earnings on investments (net of investment fees). Employer contributions increased \$2.4 million, or 26.7%, in 2018 compared to 2017 and increased \$4.0 million, or 80.0%, in 2017 compared to 2016. Net earnings on investments increased \$1.6 million, or 6.7%, in 2018 compared to 2017 and increased \$25.4 million, or 2226.6%, in 2017 as compared to 2016. Per the Plan's funding policy, for Plan years ending on or before June 30, 2016, the actuarially-determined contribution was calculated based upon the existing unfunded accrued liability amortized over 30 years. The District annually assesses the need to increase or decrease the contribution amount based upon the District's current and projected financial outlook. For the Plan year 2017, the District changed its funding policy to calculate contributions based on the existing unfunded accrued liability amortized over 15 years.

**Deductions from fiduciary net position** – The Plan was established to provide lifetime retirement annuities and survivor benefits to qualified members and their beneficiaries. Deductions from fiduciary net position include recurring monthly benefit payments, as designated by the Plan, and the cost of administering the Plan. Benefits payments increased \$1.4 million, or 12.1%, in 2018 compared to 2017 and increased \$756,200, or 7.1%, in 2017 compared to 2016, due to the annual cost of living adjustment received by participants and increasing participant retirements. Administrative expenses has remained relatively constant with a decrease of \$53,400, or 22.0% in 2018, compared to 2017, and a decrease of \$41,600, or 14.7% in 2017, compared to 2016.

## **PLAN'S FIDUCIARY RESPONSIBILITIES**

The District's Board of Directors authorizes all contributions recommended by the actuary. The Retirement Committee and the District's Board of Directors are fiduciaries of the Plan under the California Government Code. The assets of the Plan can only be used for the exclusive benefit of Plan members and their beneficiaries.

## **CONTACTING THE PLAN**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Kaweah Delta Health Care District Employees' Retirement Plan  
Attn: Jennifer Stockton, Director of Finance  
400 W. Mineral King Avenue  
Visalia, California 93291

## **Financial Statements**

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**Kaweah Delta Health Care District  
 Employees' Retirement Plan  
 Statements of Fiduciary Net Position  
 June 30, 2018 and 2017**

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|  | <u>2018</u>                  | <u>2017</u>                  |
|--|------------------------------|------------------------------|
| ASSETS   |                              |                              |
| RECEIVABLES  |                              |                              |
| Accrued interest and dividends receivable          | \$ 330,668                   | \$ 491,740                   |
| Due from broker                                    | <u>254,343</u>               | <u>232,562</u>               |
| Total receivables                                  | <u>585,011</u>               | <u>724,302</u>               |
| INVESTMENTS at fair value:                         |                              |                              |
| Cash and cash equivalents                          | 16,254,576                   | 9,779,743                    |
| Fixed income investments                           | 22,207,549                   | 22,125,342                   |
| Alternative investments                            | 11,783,081                   | 14,149,356                   |
| Equities   | <u>179,090,384</u>           | <u>158,713,051</u>           |
| Total investments                                  | <u>229,335,590</u>           | <u>204,767,492</u>           |
| TOTAL ASSETS, NET POSITION RESTRICTED FOR PENSIONS | <u><u>\$ 229,920,601</u></u> | <u><u>\$ 205,491,794</u></u> |

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Statements of Changes in Fiduciary Net Position  
Years Ended June 30, 2018 and 2017**

|  | 2018           | 2017           |
|--|----------------|----------------|
| <b>ADDITIONS</b>                             |                |                |
| Employer contributions                       | \$ 11,400,000  | \$ 9,000,000   |
| Investment income:                           |                |                |
| Net increase in fair value<br>of investments | 24,249,414     | 22,327,732     |
| Interest and dividend income                 | 3,307,257      | 3,371,195      |
| Investment expense                           | (1,632,161)    | (1,412,552)    |
| Net income from investing                    | 25,924,510     | 24,286,375     |
| Total additions                              | 37,324,510     | 33,286,375     |
| <b>DEDUCTIONS</b>                            |                |                |
| Benefit payments                             | 12,706,781     | 11,333,243     |
| Administrative expenses                      | 188,922        | 242,282        |
| Total deductions                             | 12,895,703     | 11,575,525     |
| Net increase in net position                 | 24,428,807     | 21,710,850     |
| <b>NET POSITION RESTRICTED FOR PENSIONS</b>  |                |                |
| Beginning of year                            | 205,491,794    | 183,780,944    |
| End of year                                  | \$ 229,920,601 | \$ 205,491,794 |

# Kaweah Delta Health Care District Employees' Retirement Plan Notes to Financial Statements

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## NOTE 1 – DESCRIPTION OF PLAN

The Kaweah Delta Health Care District Employees' Retirement Plan (the "Plan") is a single-employer pension plan for certain employees of the Kaweah Delta Health Care District (the "District"). The following brief description is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**General** – The Plan is a defined benefit pension plan established to provide benefits to participants upon retirement. To be eligible for participation, an employee must be an employee of the District and his or her most recent date of hire must be on or before December 31, 2002. The employee must have elected not to participate in the Kaweah Delta Health Care District Employees' Salary Deferral Plan special matching component and must not be a member of a collective bargaining agreement. The Plan is administered by a committee (the "Retirement Committee") comprised of a District board member, management, and Plan participants.

Effective January 1, 2003, the Plan was amended to provide participants of the Plan the option to cease participation in the Plan and become a participant of the Kaweah Delta Health Care District Employees' Salary Deferral Plan's special matching component. Employees who made this irrevocable election transferred all service credit to the new defined contribution plan. Their vested net assets under the Plan were frozen and will be kept in the trust until such participants reach retirement age. The amendment further provided that no new employees will be allowed to participate in the Plan as of January 1, 2003.

Effective June 30, 2011, the Plan was amended to suspend all accruals and otherwise freeze benefits under the Plan and participants were offered a one-time opportunity to convert sick-leave hours to years of credited service. The California Public Employees' Pension Reform Act of 2013 is not applicable since benefits under the Plan are frozen.

**Vesting** – A participant in the Plan will not vest until he or she has completed five years of employment. At that time, the employee will become 100% vested in their benefit.

All amounts allocated to a participant's account become fully vested in the event of death of the participant and may then be paid in full to a designated beneficiary.

**Retirement benefits** – The Plan provides for retirement benefits to participants who are eligible. Normal retirement age is 65. Those participants who were members of the California Public Employees Retirement System on June 30, 1984, may elect early retirement starting at age 50 provided they have completed at least five years of service. All other participants may elect early retirement provided they are at least 55 and have completed at least ten years of service. Benefits are paid in the form of monthly payments based on years of service and a defined maximum of average monthly compensation for the three fiscal years of highest earnings preceding the date of retirement. The amendment effective June 30, 2011 freezes credited years of service and freezes the compensation used for benefits to periods ending no later than June 30, 2011.

Participants receiving monthly benefits are entitled to a cost-of-living increase each July 1, which reflects the change in the Consumer Price Index for the year. The maximum amount of such increase is 2% per year.

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Notes to Financial Statements**

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**Plan membership** – Plan membership consisted of the following number of participants as of the actuarial valuation dates. The actuarial valuation for fiscal year 2018 and 2017 is based on participant data as of June 30, 2017 and June 30, 2016, respectively. Update procedures were used to rollforward the total pension liability to each Plan year end measurement date.

|                             | 2018  | 2017  |
|-----------------------------|-------|-------|
| Active employees            | 784   | 834   |
| Terminated vested           | 1,009 | 993   |
| Retirees receiving benefits | 730   | 715   |
| Total participants          | 2,523 | 2,542 |

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting** – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units, using the accrual method of accounting. Employer contributions are recognized as additions to Plan assets in the period they are appropriated by the District's Board of Directors. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Investment valuation and income recognition** – Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. 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. See Note 7 for discussion of fair value measurements. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The net increase or decrease in fair value of investments consists of both realized gains or losses and unrealized appreciation and depreciation of Plan investments.

**Payments of benefits** – Benefit payments are recorded upon distribution.

**Administrative expenses** – All administrative costs are paid using the assets of the Plan. Certain administrative and accounting services are provided to the Plan by the District without charge.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.



# Kaweah Delta Health Care District

## Employees' Retirement Plan

### Notes to Financial Statements

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**Risk and uncertainties** – Plan contributions are made and the total pension liability are reported based on certain assumptions pertaining to expected rates of returns on investments, interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

#### NOTE 3 – PLAN TERMINATION

Although the District has expressed no intent to terminate the Plan agreement, it may do so upon the occurrence of any of the following:

1. Resolution of termination by the District;
2. The bankruptcy or receivership of the District; or
3. The dissolution or merger of the District unless a successor to the business agrees to continue the Plan by executing an appropriate agreement.

In the event the Plan terminates, the accrued benefits of all affected participants accrued to the date of such termination or partial termination shall fully vest and become nonforfeitable.

#### NOTE 4 – NET PENSION LIABILITY OF THE DISTRICT

The components of the net pension liability of the District as of June 30, 2018 and 2017 are as follows:

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| Total pension liability   | \$ 270,818,782       | \$ 257,241,163       |
| Plan fiduciary net position   | <u>229,920,601</u>   | <u>205,491,794</u>   |
| District's net pension liability  | <u>\$ 40,898,181</u> | <u>\$ 51,749,369</u> |
| Plan fiduciary net position<br>as a percentage of total pension liability | 84.9%                | 79.9%                |

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Notes to Financial Statements**

Additional information as of the latest actuarial valuation follows:

|                                      |  |
|--------------------------------------|--|
| Valuation date                       | June 30, 2017  |
| Actuarial cost method                | Entry Age Normal   |
| Amortization method                  | Level dollar over 15 years   |
| Remaining amortization period        | Rolling 15 years   |
| Asset valuation method               | Fair market value of assets  |
| Actuarial assumptions:               |  |
| Investment rate of return            | 7.75%, net of pension plan expenses  |
| Projected annual salary increases    | N/A (due to benefit accrual freeze)  |
| Cost-of-living adjustments           | 2%   |
| Life expectancy of participants      | The base table RP-2014 adjusted backward to 2006 with MP-2014 and projected forward using Scale MP-2017. |
| Age when 100% of participants retire | Age 65   |

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the Plan's investment and administrative expenses) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2018 are summarized in the following table:

| <u>Asset Class</u>             | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|--------------------------------|---|
| Domestic equities:             |                                |   |
| Large cap blend                | 39%                            | 9%  |
| Small cap blend                | 15%                            | 10%   |
| International equities         | 18%                            | 9%  |
| Emerging market equities       | 3%                             | 12%   |
| Fixed income investments:      |                                |   |
| Intermediate term fixed income | 12%                            | 3%  |
| Short term fixed income        | 4%                             | 3%  |
| Alternative investments:       |                                |   |
| Managed futures                | 3%                             | 5%  |
| Relative Value                 | 3%                             | 5%  |
| Commodities                    | 3%                             | 6%  |
|                                | <u>100%</u>                    |   |

Subsequent to year end, the District approved a new plan strategy, investment policy statement, and asset allocation, designed to improve the funding ratio over time.

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Notes to Financial Statements**

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The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at amounts equal to the annual actuarially-determined contributions, except for fiscal years 2019 through 2026 reflect planned expected contributions of \$11.4 million each year. Based on this assumption, the Plan's fiduciary net position was projected to be available to make substantially all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the Plan's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate at June 30, 2018: The following presents the District's net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1- percentage-point higher (8.75%) than the current rate.

|                                  | 1%<br>Decrease<br>(6.75%) | Current<br>Discount<br>Rate (7.75%) | 1%<br>Increase<br>(8.75%) |
|----------------------------------|---------------------------|-------------------------------------|---------------------------|
| District's net pension liability | \$ 72,795,151             | \$ 40,898,181                       | \$ 14,349,492             |

**NOTE 5 – FUNDING POLICY**

The Plan's funding policy provides for periodic employer contributions at actuarially-determined amounts that are sufficient to accumulate assets to pay benefits when due. Employer contribution rates are determined using the entry-age normal funding actuarial cost method, based on the actuarial valuation as of the beginning of the year. The District's Board of Directors authorizes all contributions recommended by the actuary.

The District contributed \$11,400,000 and \$9,000,000 in the years ended June 30, 2018 and 2017, respectively.

**NOTE 6 – INVESTMENTS**

The Plan follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires the Plan to disclose its deposit and investment policies related to investments with credit risk or deposits with custodial credit risk, the credit ratings and maturities of its investments (other than U.S. government obligations or obligations guaranteed by the U.S. government), and additional disclosures related to uninsured deposits.

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Notes to Financial Statements**

A summary of investments by investment type, with scheduled maturities at June 30, 2018, follows:

|                            | Fair Value            | Investment Maturities (in years) |                      |                     |
|----------------------------|-----------------------|----------------------------------|----------------------|---------------------|
|                            |                       | Less than 1                      | 1 - 5                | More than 5         |
| Fixed income investments:  |                       |                                  |                      |                     |
| U.S. Treasury obligations  | \$ 6,434,501          | \$ -                             | \$ 2,763,136         | \$ 3,671,365        |
| Federal agency obligations | 1,130,078             | 126,351                          | 710,495              | 293,232             |
| Corporate obligations      | 14,185,727            | 2,833,234                        | 9,672,549            | 1,679,944           |
| Municipal obligations      | 315,323               | -                                | 134,265              | 181,058             |
| Fixed income mutual funds  | 141,920               | 141,920                          | -                    | -                   |
| Fixed income investments   | 22,207,549            | <u>\$ 3,101,505</u>              | <u>\$ 13,280,445</u> | <u>\$ 5,825,599</u> |
| Cash and cash equivalents: | 16,254,576            |                                  |                      |                     |
| Alternative investments    | 11,783,081            |                                  |                      |                     |
| Equity investments         | <u>179,090,384</u>    |                                  |                      |                     |
|                            | <u>\$ 229,335,590</u> |                                  |                      |                     |

Investment activities of the Plan are governed by sections of the California Government Code (the "Code"), which allow any type of investment if prudent. The Plan's investment policy (the "Policy") requires that all investing activities of the Plan comply with the Code and also sets forth certain additional restrictions that exceed those imposed by the Code. It is the policy of the Retirement Committee to pursue an investment strategy that preserves capital and emphasizes long-term growth while avoiding excessive risk, through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following is the Retirement Committee's adopted asset allocation guideline as of June 30, 2018:

| Asset Class               | Asset Allocation Guideline |         |
|---------------------------|----------------------------|---------|
|                           | Minimum                    | Maximum |
| Domestic equities         | 40%                        | 80%     |
| International equities    | 0%                         | 40%     |
| Emerging markets equities | 0%                         | 15%     |
| Cash and equivalents      | 0%                         | 20%     |
| Fixed income investments  | 20%                        | 50%     |
| Alternative investments   | 0%                         | 20%     |

Subsequent to year end, the District approved a new plan strategy, investment policy statement, and asset allocation, designed to improve the funding ratio over time.

# Kaweah Delta Health Care District

## Employees' Retirement Plan

### Notes to Financial Statements

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Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Policy provides that no investment shall be made in any security having a term remaining to maturity exceeding 30 years. The weighted average portfolio maturity may not exceed 20 years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Policy provides for investment in investment grade bonds as graded by Standard and Poor's or Moody's. Substantially all of the Plan's investments in corporate obligations were rated investment grade as of June 30, 2018.

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment denominated in a foreign currency. The Plan's foreign currency risk exposure resides within the alternative investment holdings. The Plan does not hold any direct investments or instruments denominated in a foreign currency.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. As of June 30, 2018, there were no investments held with a single corporate or government agency issuer that exceeded 5% of the Plan's total investments (excluding investments issued by the U.S. government that are exempt from reporting).

There were no other concentrations of investments at or exceeding 5% of the Plan's fiduciary net position.

For the year ended June 30, 2018, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was 12.7%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### **NOTE 7 – FAIR VALUE OF ASSETS AND LIABILITIES**

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 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value within the fair value hierarchy are:

- 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 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

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Notes to Financial Statements**

The following tables present the fair value measurements of assets recognized in the accompanying statements of fiduciary net position reported at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

| Description  | June 30, 2018  |               |         | Balance        |
|--|----------------|---------------|---------|----------------|
|  | Level 1        | Level 2       | Level 3 |                |
| <b>Investments by fair value level</b>               |                |               |         |                |
| Cash and cash equivalents                            | \$ 16,254,576  | \$ -          | \$ -    | \$ 16,254,576  |
| Fixed income investments                             |                |               |         |                |
| Fixed Income mutual fund                             | 141,920        | -             | -       | 141,920        |
| U.S. Treasury obligations                            | -              | 6,434,501     | -       | 6,434,501      |
| Federal agency obligations                           | -              | 1,130,078     | -       | 1,130,078      |
| Corporate obligations                                | -              | 14,185,727    | -       | 14,185,727     |
| Municipal obligations                                | -              | 315,323       | -       | 315,323        |
| Total fixed income investments                       | 141,920        | 22,065,629    | -       | 22,207,549     |
| Equity securities                                    |                |               |         |                |
| Domestic   | 129,138,181    | -             | -       | 129,138,181    |
| International  | 49,129,630     | -             | -       | 49,129,630     |
| Realty   | 822,573        | -             | -       | 822,573        |
| Total equity securities                              | 179,090,384    | -             | -       | 179,090,384    |
| Total investments by fair value level                | \$ 195,486,880 | \$ 22,065,629 | \$ -    | 217,552,509    |
| <b>Investments measured at net asset value (NAV)</b> |                |               |         |                |
| Alternative investments                              |                |               |         | 11,783,081     |
| Total investments measured at NAV                    |                |               |         | 11,783,081     |
| Total investments measured at fair value             |                |               |         | \$ 229,335,590 |

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Notes to Financial Statements**

| Description  | June 30, 2017  |               |         | Balance        |
|--|----------------|---------------|---------|----------------|
|  | Level 1        | Level 2       | Level 3 |                |
| <b>Investments by fair value level</b>               |                |               |         |                |
| Cash and cash equivalents                            | \$ 9,779,743   | \$ -          | \$ -    | \$ 9,779,743   |
| Fixed income investments                             |                |               |         |                |
| Fixed Income mutual fund                             | 148,800        | -             | -       | 148,800        |
| U.S. Treasury obligations                            | -              | 7,586,999     | -       | 7,586,999      |
| Federal agency obligations                           | -              | 1,600,855     | -       | 1,600,855      |
| Corporate obligations                                | -              | 12,503,742    | -       | 12,503,742     |
| Municipal obligations                                | -              | 284,946       | -       | 284,946        |
| Total fixed income investments                       | 148,800        | 21,976,542    | -       | 22,125,342     |
| Equity securities                                    |                |               |         |                |
| Domestic   | 111,903,406    | -             | -       | 111,903,406    |
| International  | 45,934,184     | -             | -       | 45,934,184     |
| Realty   | 875,461        | -             | -       | 875,461        |
| Total equity securities                              | 158,713,051    | -             | -       | 158,713,051    |
| Total investments by fair value level                | \$ 168,641,594 | \$ 21,976,542 | \$ -    | 190,618,136    |
| <b>Investments measured at net asset value (NAV)</b> |                |               |         |                |
| Alternative investments                              |                |               |         | 14,149,356     |
| Total investments measured at NAV                    |                |               |         | 14,149,356     |
| Total investments measured at fair value             |                |               |         | \$ 204,767,492 |

**Description of classification and methods of valuation** – Fixed income investments and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using other significant observable inputs such as quoted prices of similar securities, interest rates, prepayment spends, and credit risk among others.

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Notes to Financial Statements**

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The Plan has investments in two alternative investment funds. The fair values of these investments have been determined using the net asset value (NAV) per share or its equivalent. Each fund invests all of its assets through a master-feeder structure into master funds that have the same objectives as the feeder funds. The master funds invest with funds of hedge funds and other experienced portfolio managers or otherwise utilize the services of investment advisors or other investment managers employing a variety of trading styles or strategies. The objectives of the alternative investments are to generate consistent long-term capital appreciation with low volatility and little correlation with the equity and bond markets and to provide a partial inflation hedge with an attractive risk/return profile as compared to other products using a commodity index and investments in numerous futures markets.

| <u>Investments measured at NAV</u> | <u>Fair Value<br/>June 30, 2018</u> | <u>Unfunded<br/>Commitments</u> | <u>Redemption<br/>Frequency</u> | <u>Redemption<br/>Notice</u> |
|------------------------------------|-------------------------------------|---------------------------------|---------------------------------|------------------------------|
| Multi-strategy hedge fund          | \$ 6,107,103                        | \$ -                            | Quarterly                       | 95 days                      |
| Diversified futures hedge fund     | 5,675,978                           | -                               | Monthly                         | 35 days                      |
|                                    | <u>\$ 11,783,081</u>                | <u>\$ -</u>                     |                                 |                              |

**NOTE 8 – TAX STATUS**

The District has received a favorable tax determination letter dated August 25, 2014, from the Internal Revenue Service that indicates that the Plan qualifies under Internal Revenue Code Section 401(a) and the related trust is exempt from federal income taxes. Although the Plan has been amended since receiving the determination letter, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

The Plan investments are managed by independent fund managers. First State Trust Company (the "Trustee") is the trustee as defined by the Plan and, therefore, qualifies as a related party.

Fees paid to the Trustee by the Plan and included in administrative expense on the statement of changes in fiduciary net position were \$87,738 and \$82,442 for the years ended June 30, 2018 and 2017, respectively.

The Trustee retains the float on certain contributions to be invested or uncashed benefit payments as part of the Trustee's compensation for services.



## **Required Supplementary Information**

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**Kaweah Delta Health Care District  
Employees' Retirement Plan**

**Schedule of Changes in Net Pension Liability and Related Ratios (Schedule 1)**

|   | June 30, 2018         | June 30, 2017         | June 30, 2016         | June 30, 2015         | June 30, 2014         |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Total pension liability</b>  |                       |                       |                       |                       |                       |
| Interest  | \$ 19,997,363         | \$ 19,275,012         | \$ 17,720,849         | \$ 17,147,808         | \$ 16,843,096         |
| Service cost-change in benefit terms in 2014                                      | -                     | 90,092                | 90,092                | 90,092                | 90,092                |
| Changes of assumptions  | 5,445,364             | (2,957,958)           | 11,817,557            | 346,801               | 332,228               |
| Difference between expected and actual experience                                 | 841,673               | 5,563,001             | -                     | 676,759               | 264,212               |
| Benefit payments  | (12,706,781)          | (11,333,243)          | (10,577,037)          | (10,426,478)          | (8,662,328)           |
| Net change in total pension liability   | 13,577,619            | 10,636,904            | 19,051,461            | 7,834,982             | 8,867,300             |
| Total pension liability - beginning   | 257,241,163           | 246,604,259           | 227,552,798           | 219,717,816           | 210,850,516           |
| Total pension liability - ending (a)  | <u>\$ 270,818,782</u> | <u>\$ 257,241,163</u> | <u>\$ 246,604,259</u> | <u>\$ 227,552,798</u> | <u>\$ 219,717,816</u> |
| <b>Plan fiduciary net position</b>  |                       |                       |                       |                       |                       |
| Contributions - employer  | \$ 11,400,000         | \$ 9,000,000          | \$ 5,000,001          | \$ 3,720,167          | \$ 4,058,364          |
| Net investment income (loss)  | 25,924,510            | 24,286,375            | (1,142,050)           | 8,406,778             | 29,927,782            |
| Benefit payments  | (12,706,781)          | (11,333,243)          | (10,577,037)          | (10,426,478)          | (8,662,328)           |
| Administrative expenses   | (188,922)             | (242,282)             | (283,888)             | (320,131)             | (267,287)             |
| Net change in plan fiduciary net position   | 24,428,807            | 21,710,850            | (7,002,974)           | 1,380,336             | 25,056,531            |
| Plan fiduciary net position-beginning   | 205,491,794           | 183,780,944           | 190,783,918           | 189,403,582           | 164,347,051           |
| Plan fiduciary net position-ending (b)  | <u>\$ 229,920,601</u> | <u>\$ 205,491,794</u> | <u>\$ 183,780,944</u> | <u>\$ 190,783,918</u> | <u>\$ 189,403,582</u> |
| <b>District's net pension liability (a) - (b)</b>                                 | <u>\$ 40,898,181</u>  | <u>\$ 51,749,369</u>  | <u>\$ 62,823,315</u>  | <u>\$ 36,768,880</u>  | <u>\$ 30,314,234</u>  |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | 84.9%                 | 79.9%                 | 74.5%                 | 83.8%                 | 86.2%                 |
| <b>Covered employee payroll and percentage</b>                                    | N/A                   | N/A                   | N/A                   | N/A                   | N/A                   |

**Notes to Schedule:**

*Changes in assumptions:* In 2018, the discount rate changed to 7.75% from 8% used in all prior years presented and the mortality assumption was updated to RP-2014 (adjusted backward to 2006 with MP-2014 and projected generationally using Scale MP-2017). In 2017, the mortality assumption was updated to RP-2014 (adjusted backward to 2006 with MP-2014 and projected generationally using Scale MP-2016). In 2016, the mortality assumption was updated to RP-2014 (adjusted backward to 2006 with MP-2014 and projected generationally using Scale BB-2D). In 2015, the mortality assumption was updated to the PPA Static 2015 tables from the PPA Static 2014 tables used in 2014.

*Covered payroll:* The Plan was amended to freeze benefits effective June 30, 2011 and covered payroll no longer applies.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Plan will present information for those years for which information is available.

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Schedule of Employer Contributions (Schedule 2)**

| Year Ended<br>June 30, | Actuarial<br>Determined<br>Contribution | Actual<br>Contribution | Contribution<br>Excess |
|------------------------|---|------------------------|------------------------|
| 2018                   | \$ 5,817,650                            | \$ 11,400,000          | \$ 5,582,350           |
| 2017                   | 6,879,390                               | 9,000,000              | 2,120,610              |
| 2016                   | 3,223,884                               | 5,000,001              | 1,776,117              |
| 2015                   | 2,672,587                               | 3,720,167              | 1,047,580              |
| 2014                   | 3,971,905                               | 4,058,364              | 86,459                 |
| 2013                   | 4,093,248                               | 4,094,618              | 1,370                  |
| 2012                   | 2,233,412                               | 2,234,786              | 1,374                  |
| 2011                   | 11,324,298                              | 11,325,664             | 1,366                  |
| 2010                   | 12,909,875                              | 12,911,247             | 1,372                  |
| 2009                   | 10,089,712                              | 10,091,082             | 1,370                  |

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

|  |   |
|--|---|
| Actuarial cost method                      | Entry age normal. Prior to 2014, Projected unit credit method.  |
| Amortization method                        | Level dollar  |
| Remaining amortization period              | Rolling 15 years. Prior to 2017, Rolling 30 years   |
| Asset valuation method                     | Fair value  |
| Salary increases                           | N/A since 2011 - due to benefit accrual freeze.<br>2009 to 2011 from 3% to 4%   |
| Investment rate of return, net of expenses | 8.00%   |
| Retirement age                             | Participants are assumed to retire at rates varying by age from 55 to 65.   |
| Mortality                                  | The 2018 contribution assumed mortality under the RP-2014 table projected using Scale MP-2016. The 2017 contribution assumed mortality under the RP-2014 base table projected using Scale BB-2D. The 2016 contribution assumed mortality under the 2015 Static Annuitant and Non-Annuitant Mortality tables for males and females as shown in IRS Notice 2008-85. Updates to mortality tables were made in various prior years. |
| Cost of living adjustment                  | 2%  |

Other information:

Covered employee payroll and contributions as a % are not presented since the Plan was frozen to benefit accruals since 2011.

**Kaweah Delta Health Care District  
Employees' Retirement Plan  
Schedule of Investment Returns (Schedule 3)**

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| <u>Years</u> | <u>Annual money-weighted rate of return, net of Plan expenses</u> |
|--------------|---|
| 2018         | 12.7%   |
| 2017         | 13.2%   |
| 2016         | -0.8%   |
| 2015         | 4.4%  |
| 2014         | 18.3%   |
| 2013         | 10.1%   |
| 2012         | -1.4%   |
| 2011         | 25.4%   |
| 2010         | 11.2%   |
| 2009         | -18.5%  |



MOSSADAMS



COMPLIANCE PROGRAM ACTIVITY REPORT – Open Meeting  
**Ben Cripps, Compliance and Privacy Officer**  
February 2019 through April 2019

**EDUCATION**

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Live Presentations by Compliance Department –

- Compliance and Patient Privacy – New Hire Orientation
- Compliance and Patient Privacy – Management Orientation
- Privacy Breach Enforcement Update – Finance Department, Clinical Education

Written Communications sent from Compliance Department –

- Privacy Matters Article – Medical Identity Theft – Bulletin Board / All Staff
- Compliance Matters Article – Code of Conduct and Ethics – Bulletin Board / All Staff
- Privacy Matters Article – Social Media and Healthcare Professionals – Bulletin Board / All Staff
- Mandatory All Staff Training – Compliance and Patient Privacy – Written Materials and Exam

**PREVENTION AND DETECTION**

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- **California Department of Public Health (CDPH) All Facility Letters (AFL)** – Review and distribute AFL's to areas potentially affected by regulatory changes; department responses reviewed and tracked to address the regulatory change and identify potential current/future risk
- **Medicare and Medi-Cal Monthly Bulletins** – Review and distribute bulletins to areas potentially affected by the regulatory change; department responses reviewed and tracked to address the regulatory change and identify potential current/future risk
- **Office of Inspector General (OIG) Monthly Audit Plan Updates** – Review and distribute OIG Audit Plan issues to areas potentially affected by audit issue; department responses reviewed and tracked to identify potential current/future risk
- **California State Senate and Assembly Bill Updates** – Review and distribute legislative updates to areas potentially affected by new or changed bill; department responses reviewed and tracked to address regulatory change and identify potential current/future risk
- **Patient Privacy Walkthrough** – Monthly observations of privacy practices throughout Kaweah Delta; issues identified communicated to area Management for follow-up and education
- **KD HUB (Cerner)** – Participation in system enhancements and optimization and risk mitigation strategies
- **User Access Privacy Audits** – Daily monitoring of user access to identify potential privacy violations
- **Office of Inspector General (OIG) Exclusion Attestations** – Quarterly monitoring of department OIG Exclusion List review and attestations
- **Medicare PEPPER Report Analysis** – Quarterly review of Medicare Inpatient Rehabilitation, Hospice, Mental Health, and Acute Inpatient PEPPER statistical reports to identify outlier and/or areas of risk; evaluate with Kaweah Delta leadership quarterly at PEPPER Review meeting

## **OVERSIGHT, RESEARCH & CONSULTATION**

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- **Fair Market Value (FMV) Oversight** – Ongoing oversight and administration activities for physician payment rate setting/contracting activities including Physician Recruitment, Medical Directors, Call Contracts, and Exclusive and Non-Exclusive Provider Contracts
- **Medicare Recovery Audit Contractor (RAC) and Medicare Probe Audit Activity** – Records preparation, tracking, appeal timelines, and reporting
- **Licensing Applications** – Forms preparation and submission of licensing application to the California Department of Public Health; ongoing communication and follow-up regarding status of pending applications
- **KD Hub Non-Employee User Access** – Oversight and administration of non-employee user onboarding, privacy education, and user profile tracking; evaluate, document, and respond to requests for additional system access; on-going management of approximately 950 non-employee KD Hub users
- **First Tier, Downstream, Related Entities (FDR) Fraud, Waste, and Abuse Training** – Research and consultation; evaluated Medicare Final Rule change to FDR Fraud, Waste, and Abuse training; provided recommendation to Kaweah Delta Medical Foundation (KDMF) on training and oversight requirements
- **Mandatory Parkinson’s Reporting** – Regulatory research and consultation; evaluated regulatory guidance for new mandatory Parkinson’s reporting requirement; facilitated the implementation of the data discovery and reporting process
- **Skilled Nursing Facility (SNF) Required Forms** – Facilitate, coordinate, and monitor corrective efforts to ensure the appropriate and timely completion of mandatory admission forms for SNF patients
- **Third-Party Peer Review** – Research and consultation; provided counsel and regulatory guidance concerning the disclosure of Protected Health Information (PHI) for health oversight activities with licensed health care service plans
- **Graduate Medical Education (GME) Resident Recordings** – Research and consultation; evaluated regulatory guidance concerning the use of video recording technology for patient-resident interactions to support GME Accreditation Requirements
- **Assembly Bill No. 2760** – Research and consultation; evaluated AB 2760 to clarify regulatory requirements concerning prescription guidance for opioid depression reversal drugs
- **Physician Orders and Evaluations** – Research and consultation; reviewed Medicare guidance for consultation and counsel concerning physician orders, evaluations, and required signatures and certifications
- **CURES Reporting** – Research and consultation; communicated with State Medical Board to obtain clarification and guidance on CURES prescriber requirements; clarification provided to Physician
- **Senate Bill No. 1254** – Research and consultation; evaluated regulatory guidance to clarify the applicability of Senate Bill 1254 to various Kaweah Delta services; prepared a recommendation for review by Legal Counsel (Dennis Lynch); recommendation provided to Pharmacy Management
- **Pharmacy Waste** – Research and consultation; evaluated current pharmacy waste practices and regulatory requirements; recommendation provided to Pharmacy

## **AUDITING AND MONITORING**

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- **Medicare Outpatient Observation Notice (MOON) Audit** – A review of forty (40) randomly selected accounts for February 2019 noted a 83% compliance rate for the distribution of the required Observation Notice to all patients, a process currently managed by the Patient Access department; further, the review noted a 87% compliance rate for the distribution of the required MOON Observation Notice to Medicare beneficiaries, a process currently managed by the Case Management department; Compliance is working with Management to ensure appropriate corrective action is implemented; Compliance to conduct a follow-up review in the Fall 2019
- **Physician Reappointment and Office of Inspector General (OIG) Exclusion List** – A review of thirty (30) randomly selected physician credentialing reappointments were compared to the OIG List of Excluded Individuals and Entities (LEIE) and the System for Award Management; Compliance confirmed that none of the physicians included in the sampling population were identified on the LEIE; and thus not excluded from participation in the Medicare Program
- **Physician Non-Monetary Compensation** – A review of calendar year 2018 non-monetary physician gifts noted 100% compliance with Annual Federal Gifting Limits and Kaweah Delta Policy
- **Compliance Education Validation – Revenue Cycle** –Compliance Policy CP.06 Compliance Program Education requires revenue cycle departments (Patient Accounting, Patient Access, Case Management, and Health Information Management) to track and document focused compliance education efforts related to their job functions; all areas provided education content and attendance certifications, certifying compliance with CP.06