

# Del Puerto Health Care District

Patterson, California

Financial Statements

Years Ended June 30, 2017 and 2016

**WIPFLI**<sup>LLP</sup>  
CPAs and Consultants

# Del Puerto Health Care District

## Financial Statements

Years Ended June 30, 2017 and 2016

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## **Independent Auditor's Report**

Board of Directors  
Del Puerto Health Care District  
Patterson, California

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

We have audited the accompanying financial statements of Del Puerto Health Care District (the "District"), as of the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic 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; 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. Those standards require that we plan and perform the audits 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 entity'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 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 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 financial position of the District as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Required Supplementary Information**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

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

Wipfli LLP

February 14, 2018  
Spokane, Washington

# Del Puerto Health Care District

## Statements of Net Position

June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 1,544,462	\$ 824,036
Restricted cash	79,771	67,611
Receivables:		
Patient accounts - Net	566,872	800,148
Due from third-party payors	141,348	198,352
Inventory	32,981	35,221
Prepays	7,161	13,391
Total current assets	2,372,595	1,938,759
Noncurrent assets:		
Internally designated cash and cash equivalents	182,401	98,210
Capital assets - Net	5,035,073	5,075,171
Total noncurrent assets	5,217,474	5,173,381
TOTAL ASSETS	\$ 7,590,069	\$ 7,112,140

# Del Puerto Health Care District

## Statements of Net Position (Continued)

June 30, 2017 and 2016

Liabilities and Net Position	2017	2016
Current liabilities:		
Current maturities of long-term debt	\$ 86,795	\$ 84,558
Accounts payable	160,236	115,902
Deposits held for others	1,798	-
Accrued compensation and related liabilities	118,103	96,655
Total current liabilities	366,932	297,115
Noncurrent liabilities - Long-term debt	3,042,474	3,129,078
Total liabilities	3,409,406	3,426,193
Net position:		
Net investment in capital assets	1,905,804	1,861,535
Restricted for debt service	79,771	67,611
Unrestricted	2,195,088	1,756,801
Total net position	4,180,663	3,685,947
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 7,590,069</b>	<b>\$ 7,112,140</b>

# Del Puerto Health Care District

## Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Revenue:		
Net patient service revenue	\$ 3,622,918	\$ 3,643,284
Other operating revenue	234,242	280,342
<b>Total operating revenue</b>	<b>3,857,160</b>	<b>3,923,626</b>
Operating expenses:		
Salaries and wages	2,016,632	1,522,759
Employee benefits	591,227	443,619
Professional fees	846,506	1,251,382
Purchased services	476,239	455,327
Supplies	162,966	162,003
Utilities	78,424	77,336
Rental and lease	10,498	11,504
Insurance	254,452	277,277
Repairs and maintenance	87,552	101,568
Depreciation	200,824	188,788
Other	195,757	157,094
<b>Total operating expenses</b>	<b>4,921,077</b>	<b>4,648,657</b>
<b>Loss from operations</b>	<b>(1,063,917)</b>	<b>(725,031)</b>
Nonoperating revenue (expenses):		
Property taxes	1,370,649	1,196,529
Impact mitigation fees	20,051	12,626
Rental income	162,661	-
Depreciation	(45,009)	-
Contributions	150,000	-
Grants	10,392	-
Interest earnings	1,229	1,423
Other income	14,319	-
Interest expense	(125,659)	(70,352)
<b>Total nonoperating revenue</b>	<b>1,558,633</b>	<b>1,140,226</b>
<b>Revenue in excess of expenses</b>	<b>494,716</b>	<b>415,195</b>
<b>Net position - Beginning of year</b>	<b>3,685,947</b>	<b>3,270,752</b>
<b>Net position - End of year</b>	<b>\$ 4,180,663</b>	<b>\$ 3,685,947</b>

# Del Puerto Health Care District

## Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 3,913,198	\$ 3,366,963
Receipts from other operating revenue	234,242	280,342
Payments to employees	(2,586,411)	(2,002,883)
Payments to suppliers	(2,059,590)	(2,405,939)
Net cash used in operating activities	(498,561)	(761,517)
Cash flows from noncapital financing activities:		
Property tax revenues	1,370,649	1,196,529
Impact mitigation fees	20,051	12,626
Other nonoperating revenue	189,170	-
Net cash provided by noncapital financing activities	1,579,870	1,209,155
Cash flows from capital and related financing activities:		
Principal payments on capital debt	(84,367)	(50,368)
Interest payments on capital debt	(125,659)	(70,352)
Purchase of capital assets	(55,735)	(2,166,965)
Proceeds from issuance of capital debt	-	1,365,000
Net cash used in capital and related financing activities	(265,761)	(922,685)
Cash flows from investing activities:		
Net change in internally designated cash and cash equivalents	(96,351)	(12,264)
Interest received	1,229	1,423
Net cash used in investing activities	(95,122)	(10,841)
Net increase (decrease) in cash and cash equivalents	720,426	(485,888)
Cash and cash equivalents - Beginning of year	824,036	1,309,924
Cash and cash equivalents - End of year	\$ 1,544,462	\$ 824,036



# Del Puerto Health Care District

## Statements of Cash Flows (Continued)

Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (1,063,917)	\$ (725,031)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	200,824	188,788
Provision for uncollectible accounts	494,411	593,094
Changes in operating assets and liabilities:		
Receivables:		
Patient accounts	(261,135)	(687,889)
Due from third-party payors	57,004	(60,591)
Inventory	2,240	(675)
Prepays	6,230	5,605
Accounts payable	44,334	(38,313)
Accrued compensation and related liabilities	21,448	(36,505)
Total adjustments	565,356	(36,486)
Net cash used in operating activities	\$ (498,561)	\$ (761,517)
Non-cash capital and investing activities:		
Contributions for capital assets	\$ (150,000)	\$ -
Non-operating depreciation	\$ 45,009	\$ -

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Reporting Entity

Del Puerto Health Care District (the "District") is a public entity organized under Local Health Care District Laws as set forth in the Health and Safety Code of the State of California. The district operates a federally designated Rural Health Clinic providing physician and related health care services and an advanced life support ambulance service for the community of Patterson and the surrounding area. As a political subdivision of the State of California, the District is generally not subject to federal or state income taxes. The Board of Trustees consists of five residents of the District elected or appointed to four-year terms.

The District provides health care services to patients in western Stanislaus County, California. The services provided include adult, pediatric, and industrial health services, as well as health care education, diabetes education for the public, laceration treatment, and asthmatic treatment programs. The ambulance service offers 24-hour emergency medical services as well as event standby services. As part of the future growth plan, the District purchased a building in June 2016, which it currently operates and leases to 75% healthcare related tenants (gym, physical therapy, and orthodontics) until such time it may be needed for operational purposes.

#### Basis of Accounting

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board is the accepted standard-setting body in the United States for establishing governmental accounting and financial reporting principles.

The District uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

#### Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Cash and Cash Equivalents

The District considers cash and cash investments with an original maturity of three months or less to be cash equivalents.

#### Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts. Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for doubtful accounts, which reflects management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross patient service revenue and a credit to patient accounts receivable.

In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

In evaluating the collectability of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Patient Accounts Receivable and Credit Policy (Continued)

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

#### Inventories

Inventories consist of pharmaceutical, medical-surgical, and other supplies and are valued at the lower of cost or market, determined on an average-cost method.

#### Internally Designated Cash and Cash Equivalents

Noncurrent cash and cash equivalents include designated assets set aside by the Board for certain debt agreements and future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

#### Capital Assets and Equipment

Property and equipment acquisitions are recorded at cost if purchased or, if donated, at acquisition value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Depreciation and amortization have been computed using the straight-line method over the following estimated useful service lives:

Land improvements	10 to 15 years
Buildings and improvements	10 to 40 years
Fixed equipment	10 to 15 years
Major movable equipment	3 to 10 years

# Del Puerto Health Care District

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Asset Impairment**

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue, expenses, and changes in net position. No impairment loss was recorded for the years ended June 30, 2017 and 2016.

#### **Accrued Compensation and Related Liabilities**

Employees of the District earn vacation and sick hours at varying rates as provided by the District's employee benefit policies. The District's policy is to permit employees to accumulate paid time off up to a maximum. Employees are paid for accumulated vacation benefits but do not receive payment of accumulated sick leave upon termination or retirement. Accrued vacation liabilities for the years ended June 30, 2017 and 2016, were \$96,290 and \$67,299, respectively.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Net Position

Net position is classified and displayed in three components: (1) Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets, (2) restricted resources are a component of net position with constraints placed on their use either by creditors, grantors, donors, etc. or by law through constitutional provision or enabling legislation, and (3) unrestricted resources are all other assets that do not meet the definition of restricted resources or net investment in capital assets. When the District has both restricted and unrestricted resources available to finance particular program/activities, it is the District's policy to use restricted resources before unrestricted resources.

#### Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services, the District's principal activity. Nonexchange revenue, including grants, property taxes, and contributions received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

#### Net Patient Service Revenue

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. 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 provision for uncollectible accounts is offset by recoveries that are received on prior-year bad debts from patient payments.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Revenue in Excess of Expenses

The accompanying statements of revenue, expenses, and changes in net position include excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net position that are excluded from the operating indicator include assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets.

#### Property Taxes

The District received approximately 24.65% and 23.31% of its financial support from property taxes in the years ended June 30, 2017 and 2016, respectively. Property taxes are levied by the District and collected by the Stanislaus County Treasurer for operations. Taxes estimated to be collectible are recorded as revenue in the year of the levy. No allowance for doubtful taxes receivable is considered necessary. Taxes levied are recorded as nonoperating revenue and are intended to finance the District's activities of the same fiscal year. Amounts of tax levied are based on assessed property values as of the first day of January for the fiscal year for which the taxes are levied.

The funds used to support operations were \$1,370,649 and \$1,196,529 for the years ended June 30, 2017 and 2016, respectively.

#### Grants and Contributions

The District receives grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or capital purposes. Amounts that are unrestricted or are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue (expenses).

#### Advertising Costs

The District charges advertising costs to operations as incurred.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Tax Status

The District is a local agency of the State of California within the meaning of Section 56054 of the California Government Code. Accordingly, the District is exempt from federal income and state income, property, and franchise taxes.

#### Reclassifications

Certain reclassifications of 2016 amounts have been made in the accompanying financial statements to conform to the 2017 presentation.

#### Subsequent Event

Subsequent events have been evaluated through January 31, 2017, which is the date the financial statements were available to be issued.



# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 2: Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. At June 30 2017, the District had an uninsured and uncollateralized deposit balance of \$1,628,546. All funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for federally insured funds.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

Currently, all investments are held in money market accounts with maturities of less than three months and are considered cash and cash equivalents.

Under the terms of the USDA Rural Development loan, the District is required to maintain a separate debt service reserve equal to an average annual loan installment, which will be accumulated at the rate of one-tenth of that average installment each year until the required level is met. As of June 30, 2017, the District's restricted cash reserve balance is \$79,771.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 3: Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for payments to the District at amounts different from established rates. A summary of the basis of reimbursement from major third-party payors is as follows:

*Medicare* - The District's health center is designated as a rural health clinic (RHC). Under this designation, ambulatory patient care services are paid based on a cost-reimbursement methodology. Professional services provided by physicians and other clinicians are reimbursed based on prospectively determined fee schedules. The District's clinic is federally certified as an RHC.

*Medi-Cal* - Ambulatory care services provided to Medi-Cal program beneficiaries are reimbursed under fee-for-service per transport and later settled based upon uncompensated cost through the Ground Emergency Medical Transport (GEMT) supplemental reimbursement program.

*Others* - The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes fee for service, discounts from established charges, and others.

### Accounting for Contractual Arrangements

The District is reimbursed for cost-reimbursable items at interim rates, with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medi-Cal fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The District's cost reports have been examined through 2015 by both the Medicare and Medi-Cal fiscal intermediaries.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 3: Reimbursement Arrangements With Third-Party Payors (Continued)

#### Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include but are not necessarily limited to matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased.

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the District is in compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the District, 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.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RAC) to search for potentially inaccurate Medicare payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District will then have the opportunity to appeal the adjustment before final settlement of the claim is made.

The District's policy is to adjust revenue for decreases in reimbursement from the RAC reviews when these amounts are estimable and to adjust revenue for increases in reimbursement from the RAC reviews when the increase in reimbursement is agreed upon. As of June 30, 2017, the District had not been notified of any potential reimbursement adjustments.

# Del Puerto Health Care District

## Notes to Financial Statements

### Note 4: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30, 2017:

	Ambulance	Clinic	Total
Receivables from patients and their insurance carriers	\$ 538,308	\$ 53,142	\$ 591,450
Receivables from Medicare	49,644	23,474	73,118
Receivables from Medi-Cal	122,744	206,993	329,737
Total patient accounts receivable	710,696	283,609	994,305
Less:			
Allowance for contractual adjustments	(199,239)	(31,871)	(231,110)
Allowance for doubtful accounts	(196,320)	(3)	(196,323)
Net patient accounts receivable	\$ 315,137	\$ 251,735	\$ 566,872

Patient accounts receivable consisted of the following at June 30, 2016:

	Ambulance	Clinic	Total
Receivables from patients and their insurance carriers	\$ 475,189	\$ 78,548	\$ 553,737
Receivables from Medicare	68,856	62,448	131,304
Receivables from Medi-Cal	130,832	412,385	543,217
Total patient accounts receivable	674,877	553,381	1,228,258
Less:			
Allowance for contractual adjustments	(155,725)	(50,194)	(205,919)
Allowance for doubtful accounts	(222,185)	(6)	(222,191)
Net patient accounts receivable	\$ 296,967	\$ 503,181	\$ 800,148

The District's allowance for doubtful accounts for self-pay patients increased from 71% of self-pay accounts receivable at June 30, 2016, to 95% of self-pay accounts receivable at June 30, 2017. The District does not have a formal charity care policy. The District does not maintain a material allowance for doubtful accounts from third party payors, nor did it have significant write-offs from third party payors.

# Del Puerto Health Care District

## Notes to Financial Statements

### Note 5: Capital Assets

Capital asset balances and activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Transfers/ Additions	Retirements	Balance June 30, 2017
Nondepreciable assets:				
Land	\$ 310,914	\$ -	\$ -	\$ 310,914
Construction in process	-	4,000	-	4,000
Total nondepreciable capital assets	310,914	4,000	-	314,914
Depreciable assets:				
Buildings and leasehold improvements	4,927,190	-	-	4,927,190
Equipment	1,430,685	201,735	275,687	1,356,733
Total depreciable capital assets	6,357,875	201,735	275,687	6,283,923
Total capital assets before depreciation	6,668,789	205,735	275,687	6,598,837
Less - Accumulated depreciation for:				
Buildings and leasehold improvements	439,187	125,086	-	564,273
Equipment	1,154,431	120,747	275,687	999,491
Total accumulated depreciation	1,593,618	245,833	275,687	1,563,764
Total capital assets - Net	\$ 5,075,171	\$ (40,098)	\$ -	\$ 5,035,073

Capital asset balances and activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Transfers/ Additions	Retirements	Balance June 30, 2016
Nondepreciable assets:				
Land	\$ 162,914	\$ 148,000	\$ -	\$ 310,914
Depreciable assets:				
Buildings and leasehold improvements	3,124,739	1,802,451	-	4,927,190
Equipment	1,214,171	216,514	-	1,430,685
Total depreciable capital assets	4,338,910	2,018,965	-	6,357,875
Total capital assets before depreciation	4,501,824	2,166,965	-	6,668,789
Less - Accumulated depreciation for:				
Buildings and leasehold improvements	390,821	48,366	-	439,187
Equipment	1,014,009	140,422	-	1,154,431
Total accumulated depreciation	1,404,830	188,788	-	1,593,618
Total capital assets - Net	\$ 3,096,994	\$ 1,978,177	\$ -	\$ 5,075,171

# Del Puerto Health Care District

## Notes to Financial Statements

### Note 6: Long-Term Debt

A schedule of changes in the District's long-term debt obligations for 2017 follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
USDA note payable, 3.75% interest, monthly principal/interest payments of \$10,060; matures in 2040; secured by property.	\$ 1,848,636	\$ -	\$ 51,781	\$ 1,796,855	\$ 54,284
Bank note payable, 4.25% interest, monthly principal/interest payments of \$7,442; matures in 2023; secured by property.	1,365,000	-	32,586	1,332,414	32,511
<b>Total long-term debt</b>	<b>\$ 3,213,636</b>	<b>\$ -</b>	<b>\$ 84,367</b>	<b>\$ 3,129,269</b>	<b>\$ 86,795</b>

A schedule of changes in the District's long-term debt obligations for 2016 follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
USDA note payable, 3.75% interest, monthly principal/interest payments of \$10,060; matures in 2040; secured by property.	\$ 1,899,004	\$ -	\$ 50,368	\$ 1,848,636	\$ 52,289
Bank note payable, 4.25% interest, monthly principal/interest payments of \$7,442; matures in 2023; secured by property.	-	1,365,000	-	1,365,000	32,269
<b>Total long-term debt</b>	<b>\$ 1,899,004</b>	<b>\$ 1,365,000</b>	<b>\$ 50,368</b>	<b>\$ 3,213,636</b>	<b>\$ 84,558</b>

# Del Puerto Health Care District

## Notes to Financial Statements

### Note 6: Long-Term Debt (Continued)

Scheduled principal and interest repayments on long-term debt are as follows:

Year ending June 30,	Principal		Interest		Total
2018	\$	86,795	\$	123,230	\$ 210,025
2019		90,295		119,730	210,025
2020		93,788		116,236	210,025
2021		97,720		112,305	210,025
2022		101,662		108,363	210,025
2023 - 2027		571,201		478,926	1,050,127
2028 - 2032		695,186		354,938	1,050,124
2037 - thereafter		1,392,522		238,018	1,630,540
<b>Totals</b>	<b>\$</b>	<b>3,129,169</b>	<b>\$</b>	<b>1,651,746</b>	<b>\$ 4,780,915</b>

The District was in compliance with its' debt covenants at June 30, 2017 and 2016.

### Note 7: Net Patient Service Revenue

Net patient service revenue consisted of the following for the year ended June 30, 2017:

	Ambulance		Clinic		Total
Gross patient service revenue:	\$	5,452,522	\$	2,372,209	\$ 7,824,731
Less:					
Contractual allowances		3,566,533		140,869	3,707,402
Provision for uncollectible accounts		491,013		3,398	494,411
<b>Net patient service revenue</b>	<b>\$</b>	<b>1,394,976</b>	<b>\$</b>	<b>2,227,942</b>	<b>\$ 3,622,918</b>

# Del Puerto Health Care District

## Notes to Financial Statements

### Note 7: Net Patient Service Revenue (Continued)

Net patient service revenue consisted of the following for the year ended June 30, 2016:

	Ambulance	Clinic	Total
Gross patient service revenue:	\$ 4,880,064	\$ 2,395,024	\$ 7,275,088
Less:			
Contractual allowances	2,891,335	147,375	3,038,710
Provision for uncollectible accounts	615,746	(22,652)	593,094
<b>Net patient service revenue</b>	<b>\$ 1,372,983</b>	<b>\$ 2,270,301</b>	<b>\$ 3,643,284</b>

The following table reflects the percentage of gross patient service revenue by payor source for the year ended June 30, 2017:

	Ambulance	Clinic
Medicare	39.3%	3.1%
Medi-Cal	34.7%	78.4%
Other third-party payors	19.3%	18.0%
Self-pay	6.7%	0.5%
<b>Totals</b>	<b>100%</b>	<b>100%</b>

The following table reflects the percentage of gross patient service revenue by payor source for the year ended June 30, 2016:

	Ambulance	Clinic
Medicare	38.6%	2.5%
Medi-Cal	31.2%	79.9%
Other third-party payors	19.7%	17.0%
Self-pay	10.5%	0.6%
<b>Totals</b>	<b>100%</b>	<b>100%</b>



# Del Puerto Health Care District

## Notes to Financial Statements

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### **Note 8: Charity Care**

Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or who are underinsured. The District does not currently have a formal charity care policy. Health care services to patients under government programs such as Medi-Cal are also considered part of the District's benefit provided to the community, since a substantial portion of such services is reimbursed at amounts that are less than the costs of providing care.

### **Note 9: Risk Management**

#### **Risk Management**

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

#### **Medical Malpractice Claims**

The District obtains medical malpractice insurance through BETA Healthcare Group (BETA), which offers the District a professional and general liability policy on a "claims made" basis with primary limits of \$5,000,000 per claim and an annual aggregate limit of \$15,000,000. The policy has no deductible.

No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

# Del Puerto Health Care District

## Notes to Financial Statements

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### Note 10: Concentration of Credit Risk

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District, and management does not believe there are any credit risks associated with these government agencies. Contracted and other patient accounts receivable consist of various payors including individuals who are involved in diverse activities, are subject to differing economic conditions, and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2017 and 2016, was as follows:

	2017	2016
Medicare	8%	11%
Medi-Cal	33%	44%
Other third-party payors	39%	19%
Self-pay	20%	26%
Gross patient accounts receivable	100%	100%

### Note 11: Commitments and Contingencies

*Litigation* - The District may, from time to time, be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel, management estimated that matters existing as of June 30, 2017 and 2016, will be resolved without material adverse effect to the District's future financial position, results from operations, or cash flows.

*Operating leases* - The District leases various pieces of equipment under operating leases expiring at various dates. Total equipment leases and rent expense for the years ended June 30, 2017 and 2016, were \$10,498 and \$11,504, respectively. Future minimum lease payments for succeeding years under operating leases with remaining terms in excess of one year as of June 30, 2017 and 2016, were not considered material.

# Del Puerto Health Care District

## Notes to Financial Statements

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### **Note 11: Commitments and Contingencies** (Continued)

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

### **Note 12: Retirement Plan**

The District has a defined contribution retirement plan covering substantially all of the District's employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The District contributes to the plan at a rate of three percent of eligible compensation, which is defined by the plan. The District's contributions become fully vested after five years of continuous service. The District's pension expense for the plan was \$53,817 and \$56,665 for the years ended June 30, 2017 and 2016, respectively.