

Report of Independent Auditors
And Financial Statements

Del Puerto Health Care District

June 30, 2015 & 2014

JWT & Associates, LLP
Certified Public Accountants

Del Puerto Health Care District

Audited Financial Statements

June 30, 2015

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JWT & Associates, LLP

Certified Public Accountants

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Report of Independent Auditors

Board of Directors
Del Puerto Health Care District
Patterson, CA

Report on the Financial Statements

We have audited the statement of net positions of Del Puerto Health Care District (the “District”) as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year 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 the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these 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 of 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 net position of the District as of June 30, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the District as of June 30, 2014, were audited by TCA Partners, LLP, who merged into JWT & Associates, LLP as of February 1, 2015. TCA Partners, LLP's report dated October 22, 2014, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information 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 an opinion or provide any assurance.

JWT & Associates, LLP

Fresno, California

December 11, 2015

Del Puerto Health Care District

Management's Discussion and Analysis

June 30, 2015

In accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements: Management's Discussion and Analysis for State and Local Government*, the management of the Del Puerto Health Care District (District) has prepared this annual discussion and analysis in order to provide an overview of the District's performance for the fiscal year ended June 30, 2015. The intent of this document is to provide additional information on the District's historical financial performance as a whole. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2015 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

The District, in addition to administration, continues to operate two primary cost centers: Patterson District Ambulance (PDA) and Del Puerto Health Center (DPHC). The District's total assets are \$5,336,053 and total liabilities are \$2,186,378 at June 30, 2015, with a total net position of \$3,149,675.

PDA and DPHC generate revenues and are expected to be self-sufficient, but they required financial assistance from the District again this year. Total operating revenues increased by \$479,029 from 2014 to \$3,632,957 in 2015. Total operating expenses increased by \$107,897 from 2014 to \$4,306,894 in 2015, resulting in an operating loss of \$673,937 for 2015. However, tax revenues total \$1,200,295 and impact mitigation fees were \$128,824 resulting in an overall increase in net position of \$579,171 for 2015. DPHCD used those additional funds to pay off an equipment loan for the 2014 ambulance significantly sooner than scheduled.

Patterson District Ambulance continues to see increased call volumes over prior year. PDA experienced a 20% increase in gross patient revenue during 2015 and produced a net profit of \$14,321. Accounts receivable collections continued to be strong, averaging 34 days. This upcoming year PDA plans to implement a new ePCR (electronic patient care report) software system, which is needed in order to comply with recent state and federal data reporting requirements. Also this year, due to staffing modifications, PDA will outsource its patient billing services. This new vendor has many years of experience billing for rural ambulance providers with similar patient demographics. We do not expect to see any negative effect on collections.

Del Puerto Health Center experienced a 20% increase in patient visits during 2015. While there was \$150,000 net loss for 2015, this is a 57% improvement from 2014. Gross patient revenues improved by 17% as billings and collections continue to be solid. DPHC hired a new Medical Director, Jose Rodriguez, MD. Dr. Rodriguez began his full time family practice in January 2015, which allows DPHC to contract with commercial insurance companies and serve a larger portion of the community. Marketing efforts will be a main focus this coming year.

Administration is again challenged with filling the CEO position and plans to hire a firm to assist with this search. This qualified candidate will provide the necessary leadership to take the District into the future, to define and deliver additional healthcare services needed by our community.

Del Puerto Health Care District

Statements of Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,309,780	\$ 853,950
Patient accounts receivable, net of allowances	584,418	415,867
Due from third-party payors	137,761	126,054
Supplies	34,546	39,285
Prepaid expenses and deposits	18,996	315
Total current assets	2,085,501	1,435,471
Assets whose use is limited	153,557	141,399
Capital assets, net of accumulated depreciation	3,096,995	3,295,105
Total assets	\$ 5,336,053	\$ 4,871,975
 Liabilities and Net Position		
Current liabilities		
Current maturities of long-term debt	\$ 50,368	\$ 68,885
Accounts payable and accrued expenses	154,215	106,143
Accrued payroll and related liabilities	133,160	141,107
Total current liabilities	337,743	316,135
Long-term debt, less current maturities	1,848,635	1,985,336
Total liabilities	2,186,378	2,301,471
Net position		
Invested in capital assets, net of debt	1,197,992	1,171,999
Unrestricted	1,951,683	1,398,505
Total net position	3,149,675	2,570,504
Total liabilities and net position	\$ 5,336,053	\$ 4,871,975

See accompanying notes to the financial statements

Del Puerto Health Care District

Statements of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Net patient service revenue	\$ 3,509,482	\$ 2,901,297
Other operating revenue	123,475	252,631
Total operating revenues	3,632,957	3,153,928
Operating expenses		
Salaries and wages	1,346,720	1,357,408
Employee benefits	387,717	355,648
Professional fees	1,271,245	1,173,659
Purchased services	362,915	415,812
Supplies	156,052	160,489
Repairs and maintenance	121,421	92,908
Utilities	96,060	101,778
Rental and lease	11,468	12,079
Depreciation and amortization	205,593	187,319
Insurance	235,652	226,425
Other operating expenses	112,051	115,472
Total operating expenses	4,306,894	4,198,997
Operating income (loss)	(673,937)	(1,045,069)
Non-operating revenues (expenses)		
District tax revenues	1,200,295	1,010,333
Impact mitigation fees	128,824	6,882
Investment income	1,134	857
Interest expense	(77,145)	(75,099)
Total non-operating revenues (expenses)	1,253,108	942,973
Excess of revenues over expenses (expenses over revenues)	579,171	(102,096)
Net position at beginning of the year	2,570,504	2,672,600
Net position at end of the year	\$ 3,149,675	\$ 2,570,504

See accompanying notes to the financial statements

Del Puerto Health Care District

Statements of Cash Flows

Year Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from patients and third-parties on behalf of patients	\$ 3,340,931	\$ 2,895,175
Cash received from operations, other than patient services	111,768	348,667
Cash payments to suppliers and contractors	(2,332,734)	(2,358,358)
Cash payments to employees and benefit programs	(1,742,384)	(1,720,252)
Net cash used in operating activities	<u>(622,419)</u>	<u>(834,768)</u>
Cash flows from non-capital financing activities		
District tax revenues	1,200,295	1,010,333
Impact mitigation fees	128,824	6,882
Net cash provided by non-capital financing activities	<u>1,329,119</u>	<u>1,017,215</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(7,483)	(202,682)
Proceeds from debt borrowings	-	112,032
Principal payments on debt borrowings	(155,218)	(58,781)
Interest payments	(77,145)	(75,099)
Net cash used in capital and related financing activities	<u>(239,846)</u>	<u>(224,530)</u>
Cash flows from investing activities		
Net change in assets whose use is limited	(12,158)	(12,129)
Investment income	1,134	857
Net cash provided by investing activities	<u>(11,024)</u>	<u>(11,272)</u>
Net increase (decrease) in cash and cash equivalents	<u>455,830</u>	<u>(53,355)</u>
Cash and cash equivalents at beginning of year	853,950	907,305
Cash and cash equivalents at end of year	<u>\$ 1,309,780</u>	<u>\$ 853,950</u>
 Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 77,145</u>	<u>\$ 75,099</u>

See accompanying notes to the financial statements

Del Puerto Health Care District

Statements of Cash Flows (continued)

Year Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of income from operations to net cash provided by operating activities		
Operating loss	\$ (673,937)	\$ (1,045,069)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of other assets	205,593	187,319
Changes in operating assets and liabilities:		
Patient accounts receivables	(168,551)	(5,912)
Due from third-party payors	(11,707)	96,036
Supplies	4,739	11,504
Prepaid expenses and deposits	(18,681)	13,538
Accounts payable and accrued expenses	48,072	(84,988)
Accrued payroll and related liabilities	(7,947)	(7,196)
Net cash used in operating activities	<u>\$ (622,419)</u>	<u>\$ (834,768)</u>

See accompanying notes to the financial statements

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: Del Puerto Health Care District (the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District operates a Paramedic Ambulance Service for the community of Patterson and the surrounding area. The District also operates a rural health clinic providing physician and related healthcare services serving Patterson and the surrounding area. The accompanying financial statements include all activities for all of the aforementioned entities of the District. As a political subdivision of the State of California, the District is generally not subject to federal or state income taxes.

Basis of Preparation: The accounting policies and financial statements of the District generally conform to the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Financial Statement Presentation: The District applies the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management's discussion and analysis; and the preparation of the statement of cash flows on the direct method.

Management's Discussion and Analysis: Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Recent Pronouncements: The GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65"), which was effective for financial statements for periods beginning after December 15, 2012. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The adoption of this pronouncement did not materially affect the District's financial statements.

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

GASB also issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"), which was effective for financial statements for periods beginning after December 15, 2013.-GASB No. 69 requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. It also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. It defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations, and provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The District has evaluated the impact of the adoption of GASB No. 69 for the fiscal year ending June 30, 2015 and there is no effect to the District's financial statements.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested.

Patient Accounts Receivable: Patient accounts receivable represent the estimated net realizable value of amounts due from patients and third party payors. Management performs ongoing evaluations of the collectability of patient accounts receivable. A provision for contractual adjustments and uncollectible accounts is made in the period the related services are rendered. Management believes the allowance is adequate.

Supplies: Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The District does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment. As of June 30, 2015 and 2014, the District has determined that no capital assets are impaired.

Compensated Absences: The District's employees earn vacation benefits at varying rates depending on their years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2015 and 2014 are \$55,483 and \$76,001, respectively.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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. Commercial insurance coverage is purchased for claims arising from such matters.

Net Position: Net position is presented in three categories. The first category is net position “invested in capital assets, net of related debt”. This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is “restricted” net position. This category consists of externally designated constraints placed on those net assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is “unrestricted” net position. This category consists of net assets that do not meet the definition or criteria of the previous two categories.

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

Charity Care: The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Non-operating revenues and expenses are those transactions not considered directly linked to providing health care services.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

District Tax Revenues: The District receives tax revenues from Stanislaus County. Tax revenue and is recorded in the year it is assessed and received or receivable. The District also receives mitigation fees from specified new construction projects in the District. These mitigation fees are recorded in the year in which they are assessed and received or receivable.

Subsequent Events: Subsequent events have been evaluated through the date the financial statements were available to be issued.

Income Taxes: The District is a political subdivision of the state of California organized under the Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The District has been determined to be exempt from income taxes under Local Health Care District Law. Accordingly, no provision for income taxes is included in the accompanying financial statements. The District is no longer subject to examination by federal or state authorities for years prior to June 30, 2011, nor has it been notified of any impending examination and no examinations are currently in process.

Reclassifications: Certain financial statement amounts as presented in the prior year financial statements have been reclassified in these, the current year financial statements, in order to conform to the current year financial statement presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2015 and 2014, the District had deposits invested in various financial institutions in the form of cash and cash equivalents amounting to \$1,436,337 and \$995,349. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured.

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 Hospital 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.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 3 - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2015 and 2014:

2015				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Money market accounts	\$ 253,570	\$ 253,570	\$ -0-	\$ -0-
Government investment funds	180	180	-0-	-0-
Total investments	\$ 253,750	\$ 253,750	\$ -0-	\$ -0-
2014				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Money market accounts	\$ 241,262	\$ 241,262	\$ -0-	\$ -0-
Government investment funds	180	180	-0-	-0-
Total investments	\$ 241,442	\$ 241,442	\$ -0-	\$ -0-

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally set to mature within a few months to others over 15 years. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District's exposure to interest rate risk is minimal as 100% of their investments have a maturity of less than one year. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

Credit Risk: Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody's Investor Service, Inc. The District's investments in such obligations are in State government funds. The District believes that there is minimal credit risk with these obligations at this time.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 3 – INVESTMENTS (continued)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's investments are generally held by banks or government agencies. The District believes that there is minimal custodial credit risk with their investments at this time. District management monitors the entities which hold the various investments to ensure they remain in good standing.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investments are held as follows: governmental agencies 0.07% and banks 99.93%. The District believes that there is minimal custodial credit risk with their investments at this time. District management monitors the entities which hold the various investments to ensure they remain in good standing.

NOTE 4 - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2015 and 2014 were comprised of cash and cash equivalents held as a debt reserve pursuant to certain debt agreements and designated by the board for specific purposes. Interest income, dividends, and both realized and unrealized gains and losses on investments are recorded as investment income. These amounts were \$1,134 and \$857 for the years ended June 30, 2015 and 2014, respectively. Total investment income includes both income from operating cash and cash equivalents and cash and cash equivalents related to assets limited as to use. Debt securities, when present, are recorded at market price or the fair market value as of the date of each balance sheet.

NOTE 5 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs, health maintenance organizations (HMOs) and preferred provider organizations (PPOs). Patient service revenues from these programs approximate 84% of gross patient service revenues.

The Medicare Program reimburses the District on a fee for service basis for ambulance services.

The District contracts to provide ambulance services to Medi-Cal, HMO and PPO patients at negotiated rates. Certain patient reimbursement is subject to a schedule of maximum allowable charges for Medi-Cal and to a percentage discount for HMOs and PPOs.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 5 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS (continued)

Both the Medicare and Medi-Cal program's administrative procedures preclude final determination of amounts due to the District for services to program patients until after patients' medical records are reviewed and cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. The Medicare and Medi-Cal cost reports are subject to audit and possible adjustment. Management is of the opinion that no significant adverse adjustment to the recorded settlement amounts will be required upon final settlement.

Medicare and Medi-Cal revenue accounts for approximately half of the District's net patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE 6 - 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 that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Medicare	\$ 61,317	\$ 25,344
Medi-Cal	362,496	269,211
Other third party payors	324,861	226,889
Self pay and other	<u>133,228</u>	<u>147,450</u>
Gross patient accounts receivable	881,902	668,894
Less allowances for contractual adjustments and bad debts	<u>(297,484)</u>	<u>(253,027)</u>
Net patient accounts receivable	<u>\$ 584,418</u>	<u>\$ 415,867</u>

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 7 - CAPITAL ASSETS

Capital assets as of June 30, 2015 and 2014 were comprised of the following:

	<u>Balance at June 30, 2014</u>	<u>Transfers & Additions</u>	<u>Transfers & Retirements</u>	<u>Balance at June 30, 2015</u>
Land and land improvements	\$ 162,914	\$ -0-	\$ -0-	\$ 162,914
Buildings and improvements	3,124,739	-0-	-0-	3,124,739
Equipment	<u>1,324,997</u>	<u>7,483</u>	<u>(118,309)</u>	<u>1,214,171</u>
Totals at historical cost	4,612,650	<u>\$ 7,483</u>	<u>\$ (118,309)</u>	4,501,824
Less accumulated depreciation	<u>(1,317,545)</u>	<u>\$ (205,593)</u>	<u>\$ 118,309</u>	<u>(1,404,829)</u>
Capital assets, net	<u>\$ 3,295,105</u>			<u>\$ 3,096,995</u>

	<u>Balance at June 30, 2013</u>	<u>Transfers & Additions</u>	<u>Transfers & Retirements</u>	<u>Balance at June 30, 2014</u>
Land and land improvements	\$ 162,914	\$ -0-	\$ -0-	\$ 162,914
Buildings and improvements	3,099,215	25,524	-0-	3,124,739
Equipment	<u>1,147,839</u>	<u>177,158</u>	<u>-0-</u>	<u>1,324,997</u>
Totals at historical cost	4,409,968	<u>\$ 202,682</u>	<u>\$ -0-</u>	4,612,650
Less accumulated depreciation	<u>(1,130,226)</u>	<u>\$ (187,319)</u>	<u>\$ -0-</u>	<u>(1,317,545)</u>
Capital assets, net	<u>\$ 3,279,742</u>			<u>\$ 3,295,105</u>

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 8 – LONG-TERM DEBT

Long-term debt as of June 30, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Note payable to USDA, interest at 3.75%, monthly principal and interest payments of \$10,060, final payment due in 2040, secured by property.	\$ 1,899,003	\$ 1,947,520
Note payable to a bank, interest at 5.45%, monthly principal and interest payments of \$2,142, final payment due in 2019, secured by equipment.	<u>-0-</u>	<u>106,701</u>
	1,899,003	2,054,221
Less current portion	<u>(50,368)</u>	<u>(68,885)</u>
	<u>\$ 1,848,635</u>	<u>\$ 1,985,336</u>

The future principal payments required under existing debt, by years, is as follows: for the year ended June 30, 2016, \$50,368; for 2017, \$52,289; for 2018, \$54,284; for 2019, \$56,355; for 2020, \$58,505; and thereafter, \$1,627,202.

NOTE 9 - RETIREMENT PLANS

The District has a defined contribution retirement plan covering substantially all of the District's employees. In a defined contribution retirement 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, based on the length of the employee's service as 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 approximately \$68,000 and \$46,000 during the year ended June 30, 2015 and 2014.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Litigation: The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2015 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2015 and 2014

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases: The District leases various pieces of equipment under operating leases expiring at various dates. Total equipment lease and rent expense for the years ended June 30, 2015 and 2014 were \$11,468 and \$12,079, respectively. Future minimum lease payments for the succeeding years under operating leases with a remaining term in excess of one year as of June 30, 2015 are no considered material.

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management continues to evaluate the impact of this legislation on its operations including future financial commitments that will be required.

Health Care Reform: 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 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 statues 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 that the District is in compliance with fraud and abuse as well as other applicable government 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 interpretation as well as regulatory actions unknown or unasserted at this time.