

Audited Financial Statements
Del Puerto Health Care District

June 30, 2014

TCA Partners, LLP
Certified Public Accountant

Del Puerto Health Care District

Audited Financial Statements

June 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Del Puerto Health Care District
Patterson, CA

Report on the Financial Statements

We have audited the balance sheets of Del Puerto Health Care District (the "District") as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 balance sheet of Del Puerto Health Care District as of June 30, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

TCA Partners, LLP

Fresno, California

October 22, 2014

Del Puerto Health Care District

Management's Discussion and Analysis

June 30, 2014

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, 2014. 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, 2014 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Highlights

The District, in addition to administration, has two primary cost centers, Patterson District Ambulance (PDA) and Del Puerto Health Center (DPHC). Both PDA and DPHC generate revenues and are expected to be self-sufficient; however, both required assistance from the District this year. The District's total assets are \$4,871,975 and total liabilities are \$2,301,471 at June 30, 2014, with a total net position of \$2,570,504.

Tax revenues totaled \$1,010,333 and income received for mitigation fees were \$6,882 for the year ended June 30, 2014. The overall combined net patient revenue remained consistent with prior year and totaled \$2,901,297. Total operating expenses increased approximately 5% and totaled \$4,198,997 for the year ended June 30, 2014, resulting in a net operating loss of \$1,045,069 for the same period. Including non-operating revenues and expenses for the year ended June 30, 2014, the total change in net position for the fiscal year was a loss of \$102,096.

PDA provides pre-hospital emergency care in the City of Patterson, the surrounding communities of Westley and Grayson, and adjoining unincorporated areas. The ambulance call volume continues to increase annually and additional ambulance unit hours were added to meet the service demand. These services are provided without regard to a patient's ability to pay. The District enrolled in a new DHCS program for eligible governmental agencies providing Ground Emergency Medical Transport (GEMT) services to Medi-Cal patients. The GEMT Supplemental Reimbursement Program was fully implemented this year and allowed for retroactive reimbursements in fiscal years 2011, 2012, and 2013. The retroactive and current year reimbursements resulted in revenue of \$137,017. This program is subject to renewal each year and we project to receive approximately \$40,000 next year. PDA ended with an operating loss of \$291,528, excluding the ambulance direct assessment tax. The net operating loss including the special assessment revenue was \$63,958. Legal expenses from protracted labor negotiations were the primary cause of the budget deficit. The District is optimistic that labor negotiations will successfully conclude in the near future to avoid a recurring deficit.

Del Puerto Health Care District

Management's Discussion and Analysis

June 30, 2014

DPHC provided over 13,000 visits this year, which is consistent with prior year. The District has put forth great efforts to recruiting a full-time family practice physician over the prior 18 months. We have discovered there is a nationwide shortage of primary care providers, but we are very pleased to have started discussions with a highly qualified Board Certified Family Practice M.D. Dr. Rodriguez will be a great asset to our health center and the community. With the addition of Dr. Rodriguez, who is scheduled to start mid-year we can anticipate an increase in patient volume and through his leadership expand services such as behavior health services. DPHC was successful in recruiting two Board Certified Pediatric M.D.'s. Both Dr. Davenport and Dr. Blythe are wonderful with children and work well together with staff. \$42,000 was received this year from the Electronic Health Records (EHR) incentive program for two qualified providers, and our plans are to have all providers utilizing the EHR next fiscal year. DPHC reached another goal this year by leasing space to Merced Open Imaging. We are excited to help bring this much needed radiology service to the community. This year DPHC ended with a net operating loss of \$351,211.

The current receivable due from Medi-Cal is \$126,054; these funds are from the Rural Health PPS reconciliations, portions of which are held out for up to three years from submission.

Del Puerto Health Care District

Balance Sheets

Assets	June 30,	
	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 853,950	\$ 907,305
Patient accounts receivable, net of allowances	415,867	409,955
Due from third-party payors	126,054	222,090
Supplies	39,285	50,789
Prepaid expenses and deposits	315	13,853
Total current assets	1,435,471	1,603,992
Assets whose use is limited	141,399	129,270
Capital assets, net of accumulated depreciation	3,295,105	3,279,742
Total assets	\$ 4,871,975	\$ 5,013,004
Liabilities and Net Position		
Current liabilities		
Accounts payable and accrued expenses	\$ 106,143	\$ 191,131
Accrued payroll and related liabilities	141,107	148,303
Current maturities of long-term debt	68,885	58,781
Total current liabilities	316,135	398,215
Long-term debt, less current maturities	1,985,336	1,942,189
Total liabilities	2,301,471	2,340,404
Net position		
Invested in capital assets, net of debt	1,171,999	1,273,682
Unrestricted	1,398,505	1,398,918
Total net position	2,570,504	2,672,600
Total liabilities and net position	\$ 4,871,975	\$ 5,013,004

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,	
	2014	2013
Operating revenues		
Net patient service revenue	\$ 2,901,297	\$ 2,847,873
Other operating revenue	252,631	108,109
Total operating revenues	3,153,928	2,955,982
Operating expenses		
Salaries and wages	1,357,408	1,300,927
Employee benefits	355,648	342,106
Professional fees	1,173,659	965,857
Purchased services	415,812	342,142
Supplies	160,489	176,567
Repairs and maintenance	92,908	82,758
Utilities	101,778	99,250
Rental and lease	12,079	10,868
Depreciation and amortization	187,319	189,415
Insurance	226,425	207,705
Other operating expenses	115,472	121,838
Total operating expenses	4,198,997	3,839,433
Operating income (loss)	(1,045,069)	(883,451)
Non-operating revenues (expenses)		
District tax revenues	1,010,333	1,059,777
Impact mitigation fees	6,882	76,450
Investment income	857	5,635
Interest expense	(75,099)	(78,267)
Total non-operating revenues (expenses)	942,973	1,063,595
Excess of revenues over expenses (expenses over revenues)	(102,096)	180,144
Net position at beginning of the year	2,672,600	2,492,456
Net position at end of the year	\$ 2,570,504	\$ 2,672,600

See accompanying notes to the financial statements

Del Puerto Health Care District

Statements of Cash Flows

	Year ended June 30,	
	2014	2013
Cash flows from operating activities		
Cash received from patients and third-parties on behalf of patients	\$ 2,895,175	\$ 2,967,487
Cash received from operations, other than patient services	348,667	248,138
Cash payments to suppliers and contractors	(2,358,358)	(2,173,867)
Cash payments to employees and benefit programs	(1,720,252)	(1,644,957)
Net cash used in operating activities	(834,768)	(603,199)
Cash flows from non-capital financing activities		
District tax revenues	1,010,333	1,059,777
Impact mitigation fees	6,882	76,450
Net cash provided by non-capital financing activities	1,017,215	1,136,227
Cash flows from capital and related financing activities		
Purchase of capital assets	(202,682)	(20,752)
Proceeds from debt borrowings	112,032	9,246
Principal payments on debt borrowings	(58,781)	(76,823)
Interest payments	(75,099)	(78,267)
Net cash used in capital and related financing activities	(224,530)	(166,596)
Cash flows from investing activities		
Net change in assets whose use is limited	(12,129)	(32)
Investment income	857	5,634
Net cash provided by investing activities	(11,272)	5,602
Net increase (decrease) in cash and cash equivalents	(53,355)	372,034
Cash and cash equivalents at beginning of year	907,305	535,271
Cash and cash equivalents at end of year	\$ 853,950	\$ 907,305
 Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 75,009	\$ 78,267

See accompanying notes to the financial statements

Del Puerto Health Care District

Statements of Cash Flows (continued)

	Year ended June 30,	
	2014	2013
Reconciliation of income from operations to net cash provided by operating activities		
Operating loss	\$ (1,045,069)	\$ (883,451)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of other assets	187,319	189,415
Changes in operating assets and liabilities:		
Patient accounts receivables	(5,912)	46,722
Due from third-party payors	96,036	33,637
Supplies	11,504	3,637
Prepaid expenses and deposits	13,538	(10,889)
Accounts payable and accrued expenses	(84,988)	19,654
Accrued payroll and related liabilities	(7,196)	(1,924)
Net cash used in operating activities	\$ (834,768)	\$ (603,199)

See accompanying notes to the financial statements

Del Puerto Health Care District

Notes to Financial Statements

June 30, 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, 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Recent Pronouncements: Recent Pronouncements: The District has incorporated the following recent GASB issued statements within this financial statement presentation: (1) GASB 61 - The Financial Reporting Entity: Omnibus which helps better define financial presentation and component units; GASB 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements which supersedes GASB 20; GASB 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position - which establishes new standards involving consumption of net position and the acquisition of net position, both of which are applicable to future periods as well as further defining net position (formerly net assets); and is reviewing the impact of GASB 65 - Items Previously Reported as Assets and Liabilities once it is adopted next year as it may cause restatement of the June 30, 2014 net position by restating amounts related to unamortized debt issuance costs previously reported as assets. For purposes of financial statement presentation, deferred outflows are shown with the assets of the District on the balance sheet and deferred inflows are considered deferred revenues and grouped with the liabilities of the District on the balance sheet. No other adoptions of these pronouncements materially affected the District's financial statements.

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.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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, 2014 and 2013, 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, 2014 and 2013 are \$76,004 and \$88,091, respectively.

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.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2014

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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.

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.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2014

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2014 and 2013, the District had deposits invested in various financial institutions in the form of cash and cash equivalents amounting to \$995,349 and \$1,036,047. 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.

NOTE 3 - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2014 and 2013:

		2014			
		Investment Maturities in Years			
	Fair Value	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-	
		2013			
		Investment Maturities in Years			
	Fair Value	Less than 1	1 to 5	Over 5	
Money market accounts	\$ 228,982	\$ 228,982	\$ -0-	\$ -0-	
Government investment funds	179	179	-0-	-0-	
Total investments	\$ 229,161	\$ 229,161	\$ -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.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2014

NOTE 3 – INVESTMENTS (continued)

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.

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, 2014 and 2013 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 \$857 and \$5,635 for the years ended June 30, 2014 and 2013, 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.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2014

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.

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.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2014

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, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 25,344	\$ 35,005
Medi-Cal	269,211	163,359
Other third party payors	226,889	151,690
Self pay and other	<u>147,450</u>	<u>268,355</u>
Gross patient accounts receivable	668,894	618,409
Less allowances for contractual adjustments and bad debts	<u>(253,027)</u>	<u>(208,454)</u>
Net patient accounts receivable	<u>\$ 415,867</u>	<u>\$ 409,955</u>

NOTE 7 - CAPITAL ASSETS

Capital assets as of June 30, 2014 and 2013 were comprised of the following:

	<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, 2014

NOTE 7 - CAPITAL ASSETS (continued)

	<u>Balance at June 30, 2012</u>	<u>Transfers & Additions</u>	<u>Transfers & Retirements</u>	<u>Balance at June 30, 2013</u>
Land and land improvements	\$ 162,914	\$ -0-	\$ -0-	\$ 162,914
Buildings and improvements	3,089,970	9,245	-0-	3,099,215
Equipment	<u>1,131,584</u>	<u>16,255</u>	<u>-0-</u>	<u>1,147,839</u>
Totals at historical cost	4,384,468	<u>\$ 25,500</u>	<u>\$ -0-</u>	4,409,968
Less accumulated depreciation	<u>(940,811)</u>	<u>\$ (189,415)</u>	<u>\$ -0-</u>	<u>(1,130,226)</u>
Capital assets, net	<u>\$ 3,443,657</u>			<u>\$ 3,279,742</u>

NOTE 8 – LONG-TERM DEBT

Long-term debt as of June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</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.	\$ 1,947,520	\$ 1,994,241
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.	106,701	-0-
Note payable to a bank, interest at 6.95%, semi-annual principal and interest payments of \$6,728, final payment in 2014, secured by equipment.	<u>-0-</u>	<u>6,728</u>
	2,054,221	2,000,970
Less current portion	<u>(68,885)</u>	<u>(58,781)</u>
	<u>\$ 1,985,336</u>	<u>\$ 1,942,189</u>

The future principal payments required under existing debt, by years, is as follows: for the year ended June 30, 2015, \$68,885; for 2016, \$71,874; for 2017, \$74,997; for 2018, \$78,261; for 2019, \$74,497 and thereafter, \$1,685,707.

Del Puerto Health Care District

Notes to Financial Statements

June 30, 2014

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 \$46,000 and \$64,000 during the year ended June 30, 2014 and 2013.

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, 2014 will be resolved without material adverse effect on 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 lease and rent expense for the years ended June 30, 2014 and 2013 were \$12,079 and \$10,868, 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, 2014 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.