

Audited Financial Statements

**WEST SIDE
HEALTH CARE DISTRICT**

**JWT & Associates, LLP
June 30, 2016**

Audited Financial Statements

WEST SIDE HEALTH CARE DISTRICT

June 30, 2016

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Management's Discussion and Analysis

WEST SIDE HEALTH CARE DISTRICT

June 30, 2016

The management of the West Side Health Care District (the 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, 2016 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information on the District's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2016 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets increased by \$286,575 from the fiscal year ended June 30, 2015.
- Total cash and cash equivalents for operations decreased by \$197,867 over the prior year. Capital assets increased by a net \$242,430 over the prior year.
- Net patient accounts receivable were at \$101,273 as collections averaged approximately 35% of gross patient revenues. Net days in patient accounts receivable were 29.69 at June 30, 2016.
- Current assets increased by \$44,145 from the prior fiscal year while current liabilities increased by \$203,209 from the prior fiscal year. This resulted in a current ratio of 27 to 1 where as the industry norm is around 2 to 1.
- Operating revenues increased by \$180,623, or approximately \$494 per day over the prior fiscal year, the largest increase being in the prison contract revenue.
- Operating expenses increased by \$1,196,885 due to the large increases in service and contract revenues.
- The increase in net position (or income for the year) was \$83,366.

Cash and Investments

For the fiscal year ended June 30, 2016, the District's operating cash and cash equivalents and short-term investments totaled \$10,693,703 as compared to \$10,878,786 in fiscal year 2015. At June 30, 2016, days cash on hand was 840 as compared to industry goals of 100 days cash on hand. The majority of the District's cash is deposited with local banks and in the local agency investment fund or LAIF with the State of California.

Management's Discussion and Analysis (continued)

WEST SIDE HEALTH CARE DISTRICT

Current Liabilities

As previously noted, current liabilities of the District increased by \$203,209. The significant changes were related to increases in accounts payable and accrued expenses of \$171,915, directly related to service increases, and increases in accrued payroll and related liabilities of \$31,294.

Capital Assets

During the year, the District reinvested into the facility \$353,445 in various building and equipment purchases, while experiencing depreciation expense of \$111,015 for a net gain of \$242,430. The District has \$306,824 in construction-in-progress at June 30, 2016 representing capitalized costs for various expansion and remodel projects.

Volumes

- Total urgent care visits for the year were 14,270 for the year ended June 30, 2016 for an average of 38.99 a day. Visits in 2015, 2014, 2013, 2012, 2011, and 2010 were 13,046, 13,264, 11,249, 9,557, 8,601, and 10,055, respectively.

Gross Patient Charges

The District charges all its patients equally based on its established pricing structure for the services rendered. The charge master is evaluated on an ongoing basis to ensure that all only allowable charges are billed to comply with Medicare and Medi-cal regulations. Gross patient revenues were \$3,618,366 for the year.

Deductions From Revenue

Deductions from revenue are deductions based on the difference between (1) gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal and other third party payors such as Blue Cross, and (2) provisions for bad debts on self-pay financial classes.

Deductions from revenue (as a percentage of gross patient service charges) were 65.49% for fiscal year 2016. The deductions from revenue remained fairly consistent from the prior year.

Net Patient Service Revenues

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues were \$1,248,548 in fiscal year 2016.

Management's Discussion and Analysis (continued)

WEST SIDE HEALTH CARE DISTRICT

Operating Expenses

Total operating expenses were \$4,803,212 for fiscal year 2016, averaging \$13,159, a day as compared to \$3,606,327 for fiscal year 2015. The following changes were noteworthy:

- A \$544,82 increase in salaries, wages and benefits due mainly to an increase in FTE's for the year.
- An increase of \$578,546 in professional fees due mainly to the contract service increases and other factors such as locums, recruiting, and legal fees, etc.
- A slight increase of \$5,124 in supplies.
- A decrease of \$246,979 in purchased services and repairs and maintenance as the prior year included expenses attributable to the demolition of the old administrative building and the procurement of a temporary administrative building.
- All other expenses were generally comparable to the prior year as they tend to be more "fixed" in nature.

Economic Factors and Next Fiscal Year's Budget

The District's Board approved the fiscal year July 1, 2016 through June 30, 2017 budget at the June, 2016 Board meeting. For fiscal year 2017, the District has budgeted a net loss of approximately \$(506,000). The significant contributing factors to this budgeted loss are:

- There should continue to be a drastic cut in district tax revenues due to the decline in oil prices. The District is only budgeting approximately \$806,000 as compared to realized district taxes in 2016 of \$1.6 million, a decrease of close to \$800,000.
- Expenses are budgeted at approximately \$4.9 million as compared to \$4.8 million in 2016.

The District is looking forward to converting the Urgent Care services to Rural Health Care services in the near future. By so doing, it is anticipated that reimbursement will increase significantly. In addition, the District is currently seeking long-term funding in order to expand the District's facilities according to the master plan presented to the public.

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Report of Independent Auditors

The Board of Directors
West Side Health Care District
Taft, California

We have audited the accompanying financial statements of the West Side Health Care District, (the District) which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 judgement, 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 District'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 District'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 at June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

JW7 & Associates, LLP

Fresno, California
March 25, 2017

Balance Sheets

WEST SIDE HEALTH CARE DISTRICT

	June 30	
	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,876,605	\$ 7,074,472
Short-term investments	3,817,098	3,804,314
Patient accounts receivable, net	101,273	134,646
Other receivables	458,564	217,752
Prepaid expenses and deposits	<u>45,114</u>	<u>23,325</u>
Total current assets	11,298,654	11,254,509
Capital assets, net of accumulated depreciation	<u>2,263,995</u>	<u>2,021,565</u>
	<u>\$ 13,562,649</u>	<u>\$ 13,276,074</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 282,330	\$ 110,415
Accrued payroll and related liabilities	<u>123,749</u>	<u>92,455</u>
Total current liabilities	406,079	202,870
Net position		
Invested in capital assets, net of related debt	2,263,995	2,021,565
Unrestricted	<u>10,892,575</u>	<u>11,051,639</u>
Total net position	<u>13,156,570</u>	<u>13,073,204</u>
	<u>\$ 13,562,649</u>	<u>\$ 13,276,074</u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

WEST SIDE HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2016</u>	<u>2015</u>
Operating revenues		
Net patient service revenue	\$ 1,248,548	\$ 1,254,697
Prison contract revenues	1,948,559	1,786,598
Rental income	9,600	10,500
Other operating revenue	<u>27,532</u>	<u>1,821</u>
Total operating revenues	3,234,239	3,053,616
Operating expenses		
Salaries and wages	1,507,705	1,190,821
Employee benefits	438,312	210,414
Professional fees	1,805,102	1,226,556
Supplies	241,547	236,423
Purchased services	159,474	265,160
Repairs and maintenance	84,137	225,430
Rents and operating leases	8,934	6,884
Utilities and phone	38,029	31,476
Insurance	75,245	29,300
Depreciation and amortization	111,015	111,015
Travel, meetings and conferences	27,009	37,120
Other operating expenses	<u>306,703</u>	<u>35,728</u>
Total operating expenses	<u>4,803,212</u>	<u>3,606,327</u>
Operating loss	(1,568,973)	(552,711)
Nonoperating revenues		
District tax revenues	1,634,819	2,529,721
Investment income	<u>17,520</u>	<u>14,283</u>
Total nonoperating revenues	<u>1,652,339</u>	<u>2,544,004</u>
Increase in net position	83,366	1,991,293
Net position at beginning of the year	<u>13,073,204</u>	<u>11,081,911</u>
Net position at end of the year	<u>\$ 13,156,570</u>	<u>\$ 13,073,204</u>

See accompanying notes and auditor's report

Statements of Cash Flows

WEST SIDE HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$ 1,281,921	\$ 1,120,051
Cash received from prison contract and other operating sources	1,744,879	1,586,673
Cash payments to suppliers and contractors	(3,034,366)	(2,228,579)
Cash payments to employees and benefit programs	<u>(1,476,411)</u>	<u>(1,098,366)</u>
Net cash provided by (used in) operating activities	(1,483,977)	(620,221)
Cash flows from noncapital financing activities:		
District tax revenues	<u>1,634,819</u>	<u>2,529,721</u>
Net cash provided by noncapital financing activities	1,634,819	2,529,721
Cash flows from capital financing activities:		
Purchase and transfer of capital assets, net of loss on disposals	<u>(353,445)</u>	<u>(358,808)</u>
Net cash (used in) capital financing activities	(353,445)	(358,808)
Cash flows from investing activities:		
Change in short-term investments	(12,784)	(8,669)
Investment income	<u>17,520</u>	<u>14,283</u>
Net cash provided by (used in) investing activities	<u>4,736</u>	<u>6,386</u>
Net increase in cash and cash equivalents	(197,867)	1,556,306
Cash and cash equivalents at beginning of year	<u>7,074,472</u>	<u>5,518,166</u>
Cash and cash equivalents at end of year	<u>\$ 6,876,605</u>	<u>\$ 7,074,472</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss)	\$ (1,568,973)	\$ (552,711)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	111,015	111,015
Provision for bad debts	226,538	194,751
Changes in operating assets and liabilities:		
Patient accounts receivables	(193,165)	(329,397)
Other receivables	(240,812)	(212,246)
Prepaid expenses and deposits	(21,789)	(23,325)
Accounts payable and accrued expenses	171,915	99,237
Accrued payroll and related liabilities	<u>31,294</u>	<u>92,455</u>
Net cash provided by (used in) operating activities	<u>\$ (1,483,977)</u>	<u>\$ (620,221)</u>

See accompanying notes and auditor's report

WEST SIDE HEALTH CARE DISTRICT

June 30, 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: The West Side Health Care District (the District) is a public entity organized under Local District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the boundaries of the health care district to specified terms of office. The District office is located in Taft, California. The District owns and operates an urgent care facility located adjacent to the District offices through which it provides health care services primarily to individuals who reside in the local geographic area. The District also provides medical and dental services to the California Department of Corrections and Rehabilitation (CDCR) inmates of the Modified Community Corrections Facility (MCCF) located near Taft. These services are provided through a sub-contract arrangement through the City of Taft.

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). 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.

Management's Discussion and Analysis: Effective July 1, 2002, the District adopted 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. One of the main components of these new provisions allows the inclusion of a management's discussion and analysis to accompany the financial statement presentation.

The management's discussion and analysis is a narrative introduction and analytical overview of the District's financial activities for the year being presented. This analysis is similar to the analysis provided in the annual reports of organizations in the private sector. As stated in the opinion letter, the management's discussion and analysis is not a required part of the financial statements but is supplementary information and therefore not subject to audit procedures or the expression of an opinion on it by auditors.

WEST SIDE HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Recent Pronouncements: The District has incorporated the following recent GASB issued statements within these financial statement presentation: (1) GASB 61 - *The Financial Reporting Entity: Omnibus* which helps better define financial presentation and component units; (2) GASB 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which supercedes GASB 20; (3) 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 (4) GASB 65 - *Items Previously Reported as Assets and Liabilities*. Other recent GASB statements (through GASB 82) do not materially affect the District's financial statements as some do not apply and as others do not take affect until fiscal years beginning after June 15, 2016.

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.

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. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

Short -Term Investments: Short-term investments are funds invested local banks and in the State of California's administered Local Agency Investment fund (LAIF). The State invests transferred funds from various political subdivisions within the State into various government secured investment pools with readily determinable fair values and therefore the District's short-term investments are measured at fair value at June 30, 2016 and 2015. Investment income or losses (including realized and unrealized gains and losses on investments, interest and dividends) are included in nonoperating revenues under investment income.

Assets Limited as to Use: Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees. As of June 30, 2016 and 2015, the District has no assets limited as to use.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes

NOTE A - 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.

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 3 to 40 years, depending upon the capital asset classification.

Long-Lived Assets: As required by the Statement of Financial Accounting Standards (SFAS) no. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, the District periodically reviews long-lived assets, including capital assets, for impairment whenever the circumstances or events indicate that the carrying amount of the asset may not be fully recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) from an asset to be held and used in operations is less than the carrying value of the asset, an impairment loss is recognized. Based upon this analysis, there were no adjustments to the carrying value of long-lived assets in 2016 or 2015. As of June 30, 2016 and 2015, the District has determined that no long-lived assets are impaired.

Compensated Absences: The District's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. 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 (PTO) as of June 30, 2016 and 2015 was \$54,966 and \$42,091, respectively.

Net Position: Net position can be 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 position 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 position that does not meet the definition or criteria of the previous two categories.

Notes to Financial Statements (continued)

WEST SIDE HEALTH CARE DISTRICT

NOTE A - 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.

District Tax Revenues: The District receives much of its financial support from parcel taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Parcel taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Parcel taxes are considered delinquent on the day following each payment due date.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating 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. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

Donor-restricted Assets: Unconditional promises to give cash and other assets to the District are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are generally reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the amount originally set aside as a temporarily restricted net assets is transferred to the unrestricted net assets and recorded in the proper manner to reflect the donor's intention. Donor-restricted contributions whose restrictions are met within the same year are received and reported as unrestricted contributions in the financial statements.

Statements of Cash Flows: For purposes of the statements of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Notes to Financial Statements (continued)

WEST SIDE HEALTH CARE DISTRICT

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2016 and 2015, the District had deposits invested in various financial institutions in the form of cash and cash equivalents in the amounts of \$7,125,306 and \$7,323,172 respectively. 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.

The CGC and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits. Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

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 District 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 C - SHORT-TERM INVESTMENTS AND INVESTMENT POLICY

The District's investment policy authorizes investments in the LAIF investment pool administered by the State of California. The State's Treasurer's Office reports its investments at fair market value. The fair market value of investments in the State Treasurer's pooled investment program, including LAIF, is generally based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all the investments held against carrying cost. These valuations and financial statements are posted to the State Treasurer's Office website. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

The policy also authorizes short-term investments deposited with local banks in cash and cash equivalents (sweep accounts). These are also stated at fair value at June 30, 2016 and 2015. Short-term investments as of June 30, 2016 and 2015 were comprised of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents with a bank	\$ 250,000	\$ 250,000
Various pooled investments in LAIF	<u>3,567,098</u>	<u>3,554,314</u>
	<u>\$ 3,817,098</u>	<u>\$ 3,804,314</u>

Notes to Financial Statements (continued)

WEST SIDE HEALTH CARE DISTRICT

NOTE D - NET PATIENT SERVICE REVENUES

The District had agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for urgent care services rendered to Medicare (CMS) program beneficiaries are based specified fee schedules as published by CMS. No annual cost report settlement with CMS is required at this time.

Medi-Cal: For Medi-Cal services (both traditional and managed care), payments for urgent care services rendered to patients are based on a pre-determined fee schedules. No annual cost report settlements with the State are required at this time.

Other: Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

Net patient service revenues for the years ended June 30, 2016 and 2015 are summarized below:

	<u>2016</u>	<u>2015</u>
Urgent care patient services	\$ 3,618,366	\$ 3,683,572
Gross patient service revenues	3,618,366	3,683,572
Less deductions from revenue and related allowances	<u>(2,369,818)</u>	<u>(2,428,875)</u>
Net patient service revenues	<u>\$ 1,248,548</u>	<u>\$ 1,254,697</u>

Medicare and Medi-Cal revenue accounts for approximately 50% 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 E - CONCENTRATION OF CREDIT RISK

Patient Accounts Receivable - 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, 2016 and 2015 were as follows:

Notes to Financial Statements (continued)

WEST SIDE HEALTH CARE DISTRICT

NOTE E - CONCENTRATION OF CREDIT RISK (continued)

	<u>2016</u>	<u>2015</u>
Medicare	\$ 51,670	\$ 41,996
Medi-Cal (traditional and managed care)	197,018	160,132
Other third party payors	340,689	276,906
Self pay and other	<u>115,464</u>	<u>93,846</u>
Gross patient accounts receivable	704,841	572,880
Less allowances for deductions from revenue	<u>(603,568)</u>	<u>(438,234)</u>
Net patient accounts receivable	<u>\$ 101,273</u>	<u>\$ 134,646</u>

District Tax Revenues - The District receives approximately 33% of their revenues from Kern County under the parcel taxing program. These funds are used to support the operations of the District in providing healthcare to the local region. Parcel taxes are levied by the County on the District's behalf during the year. Parcel taxes are secured by properties within the District and because of this feature, management believes that there is no credit risk associated with these parcel taxes once an assessment has been made. Many of parcels with the District are assessed based upon oil reserves within each parcel and the assessed value is therefore contingent upon the price of oil in the market at the time of assessment. It is because of these market conditions that district tax revenues can vary widely from year-to-year.

NOTE F - OTHER RECEIVABLES

Other receivables as of June 30, 2016 and 2015 were comprised of the following:

	<u>2016</u>	<u>2015</u>
Accrued prison contract receivable due from the City of Taft	\$ 458,564	\$ 186,244
Kern County district taxes and other		<u>31,508</u>
	<u>\$ 458,564</u>	<u>\$ 217,752</u>

The District provides medical and dental services to the California Department of Corrections and Rehabilitation (CDCR) inmates of the Modified Community Corrections Facility (MCCF) located near the City of Taft. These services are provided through a sub-contract arrangement through the City of Taft. The District bills the City of Taft for these services, as well as other services and supplies, on a monthly basis. Payment is remitted to the District by the City of Taft, which in turn, is reimbursed by the State of California's prison system.

Notes to Financial Statements (continued)

WEST SIDE HEALTH CARE DISTRICT

NOTE G - CAPITAL ASSETS

Capital assets as of June 30, 2016 and 2015 were comprised of the following:

	<u>Balance at June 30, 2015</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>
Land and land improvements	\$ 182,174			\$ 182,174
Buildings and improvements	2,094,883			2,094,883
Furniture and equipment	362,726	\$ 89,005		451,731
Construction-in-progress	<u>42,384</u>	<u>264,440</u>		<u>306,824</u>
Totals at historical cost	2,682,167	353,445		3,035,612
Less accumulated depreciation	<u>(660,602)</u>	<u>(111,015)</u>		<u>(771,617)</u>
Capital assets, net	<u>\$ 2,021,565</u>	<u>\$ 242,430</u>	<u>\$</u>	<u>\$ 2,263,995</u>

	<u>Balance at June 30, 2014</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2015</u>
Land and land improvements	\$ 182,174			\$ 182,174
Buildings and improvements	1,850,503	\$ 244,380		2,094,883
Furniture and equipment	290,682	72,044		362,726
Construction-in-progress	<u>42,384</u>	<u>42,384</u>		<u>42,384</u>
Totals at historical cost	2,323,359	358,808		2,682,167
Less accumulated depreciation	<u>(549,587)</u>	<u>(111,015)</u>		<u>(660,602)</u>
Capital assets, net	<u>\$ 1,773,772</u>	<u>\$ 247,793</u>	<u>\$</u>	<u>\$ 2,021,565</u>

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 40 years for buildings and improvements, and 3 to 20 years for furniture and equipment.

WEST SIDE HEALTH CARE DISTRICT

NOTE H - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2016, the District has \$306,824 recorded as construction in progress which are commitments under way at year end for various expansion and other projects for various remodeling and major repair on the District's premises. No interest has been capitalized into these various projects as of June 30, 2016.

Operating Leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2016 and 2015, were \$8,934 and \$6,884, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2016 and 2015 are not considered material. District lease or rent agreements that have initial or remaining lease terms in excess of one year, again, are not considered material.

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, 2016 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Medical Malpractice Insurance: The District maintains commercial malpractice liability insurance coverage under a claims made and reported policy covering losses up to \$1 million per claim and \$3 million in the annual aggregate, with a per claim deductible of \$5,000. The District plans to maintain the insurance coverage by renewing its current policy, or by replacing it with equivalent insurance.

Workers Compensation Program: The District is a participant in the Association of California Hospital District's Alpha Fund (the Fund) which administers a self-insured worker's compensation plan for participating entity employees of its member entities. The District pays premiums to the Fund which are adjusted annually. If participation in the Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the Fund.

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 believes the District is in compliance with HIPAA as of June 30, 2016 and 2015.

Regulatory Environment: The District is subject to several laws and regulations. These laws and regulations include matters such as 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 possible violations of 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 that the District is in compliance with all applicable government laws and regulations and is not aware of any future actions or unasserted claims at this time.

Notes to Financial Statements (continued)

WEST SIDE HEALTH CARE DISTRICT

NOTE I - RETIREMENT PLANS

The District, beginning July 1, 2015, offers a deferred compensation plan (the Plan) to eligible employees. The Plan allows participants to defer income during peak years and set it aside as retirement savings. The employee funds set aside are pre-tax dollars and therefore reduce the amount of current income taxable to the employee. The District has established certain requirements in order for employees to qualify for the Plan. All contributions are voluntary by the employee and they are 100% vested at inception

NOTE J - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2016 and 2015:

<i>As of June 30, 2016</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Savings and cash equivalents	\$ 250,000	\$ 250,000		
Local agency investment fund	<u>3,567,098</u>	<u>3,567,098</u>		
Total investments	<u>\$ 3,817,098</u>	<u>\$ 3,817,098</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

<i>As of June 30, 2015</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Savings and cash equivalents	\$ 250,000	\$ 250,000		
Local agency investment fund	<u>3,554,314</u>	<u>3,554,314</u>		
Total investments	<u>\$ 3,804,314</u>	<u>\$ 3,804,314</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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. Policies generally identify 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. One of the ways an entity manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations. 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.

Notes to Financial Statements (continued)

WEST SIDE HEALTH CARE DISTRICT

NOTE J - INVESTMENTS (continued)

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. Generally an entity's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of \$500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), an entity would not be able to recover the value of its investment or collateral securities that are in the possession of another party. An entity's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. An entity's investment policy generally allows for different concentrations in selected investment portfolios such as government-backed securities, which are deemed to be lower risk.

NOTE K - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through March 25, 2017, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

