
**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
(A California Political Subdivision)**

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Los Medanos Community Healthcare District
Pittsburg, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and major funds of Los Medanos Community Healthcare District (the District) as of and for the year June 30, 2013 and the related notes to the financial statements, which collectively comprise Los Medanos Community Healthcare District's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit 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 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 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 opinions

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and major funds of the District as of June 30, 2013, and the respective changes in financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principles

As discussed in Note 1 to the financial statements, effective July 1, 2012, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Patricia A. Anderson
Oakland, California
April 22, 2014

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2013**

INTRODUCTION

This report presents Management's analysis of the Los Medanos Community Healthcare District's (the "District") financial condition and activities as of and for the year ended June 30, 2013. Management's Discussion and Analysis ("MD&A") is intended to serve as an introduction to the District's basic financial statements.

This document has been prepared based on reporting requirements included in Statement No. 34 of the Governmental Accounting Standards Board (GASB). GASB 34 has made changes to the contents and the format of the financial statement of governmental agencies, which include the Government-wide Financial Statements on a full accrual basis including the cost of the capital assets and related depreciation.

This information should be read in conjunction with the District's audited financial statements.

The information in the MD&A includes the following elements:

- Organization and Business
- Overview of Basic Financial Statements
- Financial Analysis
- Capital Assets
- Economic Factors and Future Plans
- Request for information.

ORGANIZATION AND BUSINESS

The Los Medanos Community Healthcare District is a governmental entity legally constituted as a special district under California law, and its boundaries encompass the Pittsburg/Bay Point area as well as unincorporated portions of Clayton, Clyde, Antioch, and Concord. Los Medanos Community Healthcare District identifies local healthcare needs and collaboratively develops solutions.

District tax revenues are used for programs and activities related to health, wellness and disease prevention. The District is also actively involved in organizing and sponsoring programs to raise the community's awareness about important health issues, and is considered a full-fledged healthcare partner in its region.

The District is able to address health needs by partnership with other healthcare providers and agencies, providing financial support in lieu of direct services. In terms of facility use, the District has structured a lease agreement with Contra Costa Health services that leverages the building asset to provide a high level of healthcare services that include CCHS and other public health services.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2013**

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District's basic financial statements are comprised of the Government Wide Statement of Net Position and Statement of Activities; the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance; and the Proprietary Fund Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows; and Notes to the Financial Statements.

Government-Wide Financial Statements

Government-Wide Financial Statements utilize the economic resources measurement focus using the full accrual basis of accounting similar to commercial enterprises. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

For the current year the only difference between the Government-Wide Financial Statements and the Fund Financial Statements is the classifications within the fund balances and one revenue item totaling \$21,622 that is recognized on the government-wide Statement of Activities but not on the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances because the amount was not received within the District's revenue availability period following year end. As this item does not make a significant difference in the analysis of the District's financial position and operations for the year ended June 30, 2013, the following discussion and analysis will generally be equally applicable to the Government-Wide and Fund Financial Statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses Governmental and Proprietary fund accounting to ensure and demonstrate compliance with financial-related legal requirements. The Governmental Fund is used to account for the District's basic services and the Proprietary Fund is used to account for the District's leasing activity.

Governmental fund accounting uses a flow of current resources measurement focus and the modified accrual basis of accounting. Modified accrual accounting recognizes revenues when available for current operations, normally those revenues that will be received within 90 days of year end. Proprietary (Enterprise) fund accounting uses the full accrual basis of accounting.

The District's financial statements include:

Balance Sheet

The Governmental Fund Balance Sheet presents information on the District's assets and liabilities, with the difference between the two reported as a fund balance. Over time, increases or decreases in fund balance may serve as a useful indicator of the financial health of the District. To assess the overall health of the District, achievement of the District's mission needs to be considered as well.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2013**

The Governmental Fund Balance Sheet provides detail of assets and liabilities and describes the components of fund balance.

Statement of Revenues, Expenses, and Changes in Fund Balance

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenditures, and Changes in Fund Balance present the results of the District's operations over the course of the fiscal year and information as to how the fund balance changed over the year. This can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees (rental income) or other funds received (tax revenues). All changes in fund balance are reported during the period on the modified accrual method of accounting which had no significant differences from full accrual accounting, in which transactions are recognized when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Statement of Cash Flows

The Proprietary Fund Statement of Cash Flows presents changes in cash and cash equivalents resulting from operating, capital, non-capital, and investing activities. This statement summarized the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligations or receipt and excludes non-cash accounting measures of depreciation or amortization of assets.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found following the financial statements in the audited financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report may present certain required supplementary information comparing budget to actual results of operations. The District is not required to adopt an annual budget; however, during the June 30, 2013 fiscal year the District approved and adopted a budget.

FINANCIAL ANALYSIS

Financial Highlights

- Total assets of the District exceeded total liabilities at June 30, 2013 by \$2,983,109.
- Total net position of the District decreased by \$201,940 for the year ended June 30, 2013.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2013**

- Property tax revenue, including both the District's share of the 1% ad valorem assessment and the AB 1290 pass-through payments from redevelopment agencies, for the year ended June 30, 2013, declined by a total of \$51,794 from the previous year due to the statewide dissolution of redevelopment agencies and falling assessed valuation on property within the District
- The District significantly expanded its community grant programs, reporting \$327,404 in direct grant expenditures during 2012-2013 compared with \$61,491 the previous year.
- The District's expenses for professional services declined \$78,818 due to the completion of strategic planning activities and the transition of responsibility from outside consultants to District staff. Due to timing of the District's prior audits, two years of annual audits were recorded as expenditures in 2011-2012 but this was reduced to one in 2012-2013.

Financial Position

During the year, the District's net position decreased by \$201,940 (6.34%) over the prior year.

TABLE 1 - Comparative Statement of Net Position is presented in the following table:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current Assets	\$ 1,181,891	\$ 1,245,319	\$ (63,428)	(5.09%)
Capital assets, net	<u>2,888,178</u>	<u>3,046,583</u>	<u>(158,405)</u>	<u>(5.20%)</u>
Total assets	4,070,069	4,291,902	(221,833)	(5.17%)
Current liabilities	152,167	135,215	16,952	(12.54%)
Long-term debt	<u>934,793</u>	<u>971,638</u>	<u>(36,845)</u>	<u>(3.79%)</u>
Total liabilities	1,086,960	1,106,853	(19,893)	(1.80%)
Net Position:				
Invested in capital assets, net of related debt	1,916,541	1,974,946	(58,405)	(2.96%)
Unrestricted	<u>1,066,568</u>	<u>1,210,103</u>	<u>(143,535)</u>	<u>(11.86%)</u>
Total net position	<u>\$ 2,983,109</u>	<u>\$ 3,185,049</u>	<u>\$ (201,940)</u>	<u>(6.34%)</u>

Net investment in capital assets represent the net value of these assets less outstanding debt or commitment against those assets. This net investment in capital assets represents 62% of the District's total net position at June 30, 2013. These assets are used to provide direct health care services, as the District leases the District's hospital building to Contra Costa County Health Services. These assets are not available for future spending.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2013**

Analysis of Changes in Net Position: The District had a net decrease of \$201,940 for the year ended June 30, 2013.

Table 2 – Comparative Statement of Activities

	Year Ended <u>June 30, 2013</u>	Year Ended <u>June 30, 2012</u>	Increase <u>(Decrease)</u>	<u>%</u>
Revenues & Support				
Tax Revenues	\$ 677,139	728,933	\$ (51,794)	(7.11%)
Lease Income	100,000	100,000		0.00%
Program Income		973	(973)	(100.00%)
Investment Income	2,757	3,906	(1,149)	(29.42%)
Returned Grant Funds	2,848	100,660	(97,812)	(97.17%)
Other Revenues	21,622		21,622	100.00%
	<u>804,366</u>	<u>934,472</u>	<u>(130,106)</u>	<u>(13.92%)</u>
Total Revenues				
Expenses				
Grant & Grant Admin	344,959	163,687	181,272	110.74%
Property	237,845	237,845		0.00%
General administration	423,502	406,198	17,304	4.26%
	<u>1,006,306</u>	<u>807,730</u>	<u>198,576</u>	<u>24.58%</u>
Total Expenses				
Net income/loss	\$ <u>(201,940)</u>	\$ <u>126,742</u>	\$ <u>(328,682)</u>	<u>(259.33%)</u>

The increase in grant expenses occurred because the District used a two-year grant process in fiscal year 2010-2011 which resulted in the majority of grant expenditures being incurred in 2010-2011 and a much smaller amount in 2011-2012. The District conducted a new grant process in 2012-2013 significantly increasing grant expenditures over 2011-2012.

CAPITAL ASSETS

There were no additions of capital assets in the fiscal year ended June 30, 2013.

DEBT ADMINISTRATION

LMCHD operated the Los Medanos Community Hospital up until 1994, when the hospital closed due to financial difficulties and the District was forced to declare bankruptcy. The California Statewide Office of Health Planning and Development (OSHPD) were entitled to file a \$1.4 million claim in the District's bankruptcy. However, in place of this claim the District entered into a contractual agreement with OSHPD whereby the District assigned all rental income from the hospital facility from August 1, 1998 to January 31, 2026 to OSHPD.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2013**

The terms of the OSHPD agreement are as follows:

1. 08/01/1998 – 7/31/2018: \$100,000 per year
2. 08/01/2018 – 7/31/2020: \$500,000 per year, minimum
3. 03/01/2020 – 7/31/2026: all rental income, if any

For the year ended June 30, 2013, the District assigned \$100,000 of its lease income to the State to satisfy the District's contractual obligation.

Additional information on the District's long-term debt obligations can be found in Notes 4 and 5 to the accompanying financial statements.

ECONOMIC FACTORS AND FUTURE PLANS

The District finalized and adopted a six-year strategic plan for 2012-2016 in October 2010. The 2012-2016 plan includes the following:

- On-going monitoring of the health profile and status of District resident to create a broad-based community approach to health care.
- Implementation of a Community Grants Program that will allow the District to continue to provide healthcare services by supporting the existence of existing organizations.
- Increase the District's financial stability.
- Provide continued Health Center Oversight as facility owner and advocate for District residents for the provision of healthcare services.
- Continuation of Health Program Partnerships with Contra Costa Health Services and other healthcare organizations.

LMCHD has restructured its financial management approach to incorporate prudent financial decision-making. The District was able to retire a portion of the bankruptcy debt early, relieving taxpayers of an additional five years of debt service (or approximately \$440,000 in interest expense).

The District anticipates continued engagement with the community on a variety of health issues and plans to offer community grants based on applications to be circulated twice per year.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the LMCHD's finances and to demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact Barbara Kee @ the Los Medanos Community Healthcare District, PO Box 8698, Pittsburg, CA 94565. Telephone number 925-432-2200.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments (Note 2)	\$ 1,144,632	\$	\$ 1,144,632
Accounts receivable	33,986		33,986
Prepaid expenses	3,273		3,273
Capital assets (note 3):			
Nondepreciable		494,367	494,367
Depreciable		2,393,811	2,393,811
 TOTAL ASSETS	 1,181,891	 2,888,178	 4,070,069
 LIABILITIES:			
Accounts payable	34,301		34,301
Payroll liabilities	12,079		12,079
Other payable	3,538		3,538
Accrued interest		65,405	65,405
Non-current liabilities (Note 5)			
Due within one year		36,844	36,844
Due in more than one year		934,793	934,793
 TOTAL LIABILITIES	 49,918	 1,037,042	 1,086,960
 NET POSITION:			
Invested in capital assets, net of related debt		1,916,541	1,916,541
Unrestricted	1,131,973	(65,405)	1,066,568
 TOTAL NET POSITION	 \$ 1,131,973	 \$ 1,851,136	 \$ 2,983,109

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Functions/ Programs</u>	<u>Expenses</u>	<u>Program</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:					
Grant Expenses					
Community grants	\$ 327,404	\$	\$ (327,404)	\$	\$ (327,404)
Programs/Outreach Expenses	3,255		(3,255)		(3,255)
Grant administration	14,300		(14,300)		(14,300)
General Administration					
Salary and benefits	182,786		(182,786)		(182,786)
Board stipend and meeting expenses	23,261		(23,261)		(23,261)
Board election charges	41,160		(41,160)		(41,160)
Professional services	77,433		(77,433)		(77,433)
Legal services	28,897		(28,897)		(28,897)
Office supplies and maintenance	16,088		(16,088)		(16,088)
Communication	1,380		(1,380)		(1,380)
Insurance	18,976		(18,976)		(18,976)
Travel & Seminar	14,370		(14,370)		(14,370)
Other	19,151		(19,151)		(19,151)
Total governmental activities	768,461		(768,461)		(768,461)
Business -type Activities:					
Leasing	237,845	100,000		(137,845)	(137,845)
Total Business-type activities	237,845	100,000		(137,845)	(137,845)
Total	\$ 1,006,306	\$ 100,000	(768,461)	(137,845)	(906,306)
General revenues:					
Property taxes			669,235		669,235
AB1290 Pass-through			7,904		7,904
Investment earnings and interest			2,757		2,757
Other income			24,470		24,470
Transfers			(14,035)	14,035	
Total general revenues and transfers			690,331	14,035	704,366
Changes in net position			(78,130)	(123,810)	(201,940)
Beginning net position			1,210,103	1,974,946	3,185,049
Ending net position			\$ 1,131,973	\$ 1,851,136	\$ 2,983,109

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2013**

		<u>General Fund</u>
ASSETS		
Cash and investments	\$	1,144,632
Accounts receivable		33,986
Prepaid expenses		<u>3,273</u>
TOTAL ASSETS	\$	<u><u>1,181,891</u></u>
 LIABILITIES AND FUND BALANCE		
Accounts payable	\$	34,301
Payroll liabilities		12,079
Deferred revenue		21,622
Other		<u>3,538</u>
Total liabilities		<u>71,540</u>
 FUND BALANCE		
Unassigned		<u>1,110,351</u>
Total Fund Balance		<u>1,110,351</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>1,181,891</u></u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2013**

Total fund Balance - governmental fund	\$ 1,110,351
Amounts reported for fund balances of governmental funds in the balance sheet are different than amounts reported for net position of governmental activities in the statement of activities because:	
As the focus of governmental fund is on short-term financing, some assets will not be available to pay current expenditures. Those assets (receivables) are offset by deferred revenue in the governmental funds and they are not included in fund balances.	
	<u>21,622</u>
Total net position of governmental activities	\$ <u><u>1,131,973</u></u>

The accompanying notes are an integral part of these financial statements

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>
REVENUES	
Property tax receipts	\$ 669,235
AB 1290 Pass-through	7,904
Other income	2,848
Interest income	<u>2,757</u>
 Total revenues	 <u>682,744</u>
 COMMUNITY AND HEALTH PROGRAM EXPENDITURES	
Community grants	327,404
Program/Outreach Expenses	3,255
Grant administration	<u>14,300</u>
 Total community and health program expenditures	 <u>344,959</u>
 GENERAL ADMINISTRATION	
Salary and benefits	182,786
Board stipend and meeting expenses	23,261
Board election charges	41,160
Professional services	77,433
Legal services	28,897
Office supplies and maintenance	16,088
Communication	1,380
Insurance	18,976
Other	19,151
Travel & Seminars	<u>14,370</u>
 Total general administration expenditures	 <u>423,502</u>
 Total expenditures	 <u>768,461</u>
 EXCESS OF EXPENDITURES OVER REVENUE	 (85,717)
 OTHER FINANCING SOURCES (USES)	
Transfers out	<u>(14,035)</u>
 Net change in fund balance	 (99,752)
 Fund balance - beginning of year	 <u>1,210,103</u>
 Fund balance - end of year	 <u>\$ <u>1,110,351</u></u>

The accompanying notes are an integral part of these financial statements

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Total net change in fund balance - governmental fund	\$	(99,752)
<p>The changes to net position reported in this statement differ from the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances due to the following reconciling items:</p>		
<p>Revenue from charges for current services which do not provide current financial resources are not reported as revenues in the government funds but are reported in the statement of activities.</p>		21,622
Total change in net position - governmental activities	\$	(78,130)

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
 PROPRIETARY FUND
 STATEMENT OF NET POSITION
JUNE 30, 2013**

	Business-Type Activities Enterprise Fund <u>Leasing</u>
ASSETS:	
Noncurrent capital assets:	
Depreciable -	
Building	\$ 4,717,446
Equipment	12,592
Less: Accumulated depreciation	<u>(2,336,227)</u>
Depreciable assets, net	<u>2,393,811</u>
Nondepreciable -	
Land	<u>494,367</u>
Nondepreciable assets, net	<u>494,367</u>
Net capital assets	<u>2,888,178</u>
Total Capital Assets	<u>2,888,178</u>
LIABILITIES:	
Liabilities	
Accrued interest	65,405
Current portion of contractual obligation	36,844
Long term portion of contractual obligation	<u>934,793</u>
Total liabilities	<u>1,037,042</u>
NET POSITION:	
Invested in capital assets	1,916,541
Unrestricted	<u>(65,405)</u>
Total net position	<u>\$ 1,851,136</u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013**

	Business-Type Activities Enterprise Fund <u>Leasing</u>
OPERATING INCOME	
Rental income	\$ <u>100,000</u>
Total revenues	<u>100,000</u>
OPERATING EXPENSES	
Depreciation	158,405
Taxes and expenses	<u>14,035</u>
Total operating expenses	<u>172,440</u>
Operating (loss)	<u>(72,440)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	<u>(65,405)</u>
Total nonoperating (expenses), net	<u>(65,405)</u>
(Loss) before transfers	(137,845)
Transfers In	<u>14,035</u>
Change in net position	(123,810)
Net position - beginning of year	<u>1,974,946</u>
Net position - end of year	\$ <u><u>1,851,136</u></u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Business Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants	\$ 100,000
Payment for taxes and expenses	(14,035)
Cash provided by operating activities	85,965
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from the General Fund	14,035
Cash provided by noncapital financing activities	14,035
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment for interest	(67,517)
Principal paid on long term obligation	(32,483)
Cash used by capital and related financing activities	(100,000)
Net increase in cash and cash equivalents	-0-
Cash and cash equivalents - beginning of year	-0-
Cash and cash equivalents - end of year	\$ -0-
Reconciliation of Operating loss to net cash provided by operating activities:	
Loss from operations	\$ (72,440)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	158,405
Cash flows from operating activities	\$ 85,965

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Los Medanos Community Healthcare District (LMCHD or the “District”) is a California Political Subdivision that was established in 1946 in accordance with provisions of the Health and Safety Code of the State of California. It is governed by a Board of Directors who is elected from the community they serve which includes Pittsburg, Bay Point and portions of Clayton, Clyde, Antioch and Concord. The primary source of funding is a share of the one percent property tax revenue.

LMCHD operated the Los Medanos Community Hospital until 1994 when the hospital closed due to financial difficulty. To settle this bankruptcy, the District accepted long-term debt from California’s Statewide Office of Health Planning and Development (OSHPD) and entered into a contractual agreement to assign rental income to OSHPD.

The primary purpose of the District is to improve the quality of healthcare in the community. LMCHD is actively involved in organizing and sponsoring programs that provide wellness and prevention services as well as raise the community’s awareness about important health issues. The District has developed a Community Grant Program and various Health Program Partnerships that allow the District to provide healthcare services by supporting the efforts of existing organizations and developing new programs and initiatives to address the needs of its residents.

As further described in Note 4, LMCHD partners with Contra Costa County Health Services (CCHS) by leasing the District’s hospital for purposes of providing a health clinic.

B. Basis of Presentation and Accounting

The District’s basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented:

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the District). These statements include the financial activities of the overall District. These statements distinguish between the *governmental* and *business-type* activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operation needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category – *government and proprietary* – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column.

Proprietary fund *operating* revenues such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

C. Major Funds

The District's major governmental and business-type funds are identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grant total. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds.

The District reported the following major funds in the accompanying financial statements:

General Fund – The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Fund – This enterprise fund accounts for the operation, maintenance and capital improvement projects for the building which are funded by rental income.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the full accrual basis. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District follows Statement and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include taxes and grants. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

Other revenues susceptible to accrual are investment earnings.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on governmental funds' long-term debt which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. Property Tax Revenue

The District has the authority to collect taxes on property within its political subdivision. Taxes are received by the County of Contra Costa, which has the responsibility for their collection. The District received approximately 98% of its financial support from property taxes for fiscal year ending June 30, 2013. Secured property taxes attach as an enforceable lien on property as of January 1. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

The County of Contra Costa bills and collects property taxes that are allocated by the County Auditor's Office to the District and various other taxing entities per state legislation implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California.

The District's property tax revenues are recognized in the fiscal year, for which taxes have been levied, provided they become available. "Available" means due or past due and receivable within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

F. Property and Equipment

Property, plant and equipment are stated on the cost basis, or in the case of donated items, on the basis of fair market value at the date of donation. Expenditures that increase values, change capacities or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years for office furniture and equipment, and thirty years for building and improvements. Routine maintenance and repairs are charged to expense as incurred. The threshold for capitalizing capital expenses is \$1,500.

G. Use of Estimates

The basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimated and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

H. Depreciation Expense

Depreciation is accumulated computed using the straight-line method over the useful lives of the assets. Depreciation expense was \$158,405 for the year ended June 30, 2013.

I. Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the preceding years.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Financial instruments that potentially subject the District to concentrations of credit risk are primarily cash investments and accounts receivable. The District places its cash limited amounts in banks that are insured and in investment grade debt instruments, many of which are backed by the U.S. Government or other governmental authorities. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

J. Fund Balance

As prescribed by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, governmental funds report fund balance in classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Following is a description of the District's fund balance classifications:

- **Nonspendable** – Includes amounts that cannot be spent because they are either (a) not in spendable form (inventories, prepaid amounts, etc.) or (b) legally or contractually required to be maintained intact.
- **Restricted** – Includes amounts with constraints that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board. Those committed amounts cannot be used for any other purpose unless the District Board removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance) it employed to previously commit those amounts.
- **Assigned** – Includes amounts the District intends to be used for specific purposes that are neither restricted nor committed.
- **Unassigned** – Includes the residual balance that has not been assigned to other funds and is not restricted, committed or assigned for specific purposes.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and other funds are available, then it applies amounts to the committed fund balance followed by assigned and then unassigned amounts.

k. Adoption of New Pronouncements

GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and incorporates these financial measures into the definitions of the required components of the residual measure, which will be renamed as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of July 1, 2012, the District adopted this statement, which did not have a significant impact on its financial statements.

NOTE 2 – CASH AND INVESTMENTS

The District’s cash and investments consist of the following at June 30, 2013:

Governmental Activities	\$ <u>1,144,632</u>
-------------------------	---------------------

Cash and Investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	295,906
Investment in Local Agency Investment Fund, California	<u>848,728</u>
	\$ <u><u>1,144,632</u></u>

Policies

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. All investments were in the State investment pools.

Investment in the State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429.3 under the oversight of the Treasurer of the State of California. The District’s investment in the pool is reported in the accompanying financial statement at amounts based upon the District’s pro-rata share of the amortized cost basis provided by LAIF for the entire portfolio which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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 manages its exposure to interest rate risk by investing substantially all of its funds in State investment pool.

Credit Risk

Credit risk is the risk that an 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. Investments in the State investment pools are not required to be rated.

Custodial Credit Risk

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2013, the District's bank balance of \$321,633 before reconciling items, was either FDIC insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 3 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, non being depreciated				
Land	\$ 494,367	\$	\$	\$ 494,367
Total capital assets, not being depreciated	<u>494,367</u>			<u>494,367</u>
Capital assets being depreciated				
Building	4,717,446			4,717,446
Equipment	<u>12,592</u>			<u>12,592</u>
Total capital assets, being depreciated	<u>4,730,038</u>			<u>4,730,038</u>
Less: Accumulated Depreciation				
Building	(2,167,361)	(157,248)		(2,324,609)
Equipment	<u>(10,461)</u>	<u>(1,157)</u>		<u>(11,618)</u>
Total accumulated depreciation	<u>(2,177,822)</u>	<u>(158,405)</u>		<u>(2,336,227)</u>
Total capital assets, being depreciated, net	<u>2,552,216</u>	<u>(158,405)</u>		<u>2,393,811</u>
Capital assets (net)	<u>\$ 3,046,583</u>	<u>\$ (158,405)</u>	<u>\$</u>	<u>\$ 2,888,178</u>

NOTE 4 – LEASE AGREEMENT WITH CONTRA COSTA COUNTY

The District has a lease agreement with Contra Costa County for full use of its hospital facility with 130,900 square feet and 14 acres of land which is currently used by the County Vehicle Pool at no charge. This facility is used to provide direct medical services to individuals within the District’s geographic area.

The lease is for a twenty-year term from August 1, 1998 to July 31, 2018 with two five-year options. The income from this lease amounts to \$100,000 and is restricted and has been assigned to the State Office of Health Planning and Development (OSHPD).

The County makes annual lease payments of \$100,000 directly to Cal-Mortgage Insurance Division to satisfy the District’s obligation as described in Note 5. The lease income is reported in the statement of revenue, expenses, and changes in net position and offsets the contractual obligation as shown on the balance sheet.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 5 – SETTLEMENT AGREEMENT

As set forth in the bankruptcy Settlement Agreement dated September 10, 1998, the State Office of Health Planning and Development (OSHPD) was allowed a \$1.4 million claim.

In settlement of this claim, the District entered into three agreements with OSHPD, a Settlement Agreement dated September 10, 1998, an Absolute Assignment of Rents dated August 1, 1998, and an Agreement dated May 1, 2000 (collectively, the “OSHPD Agreements”). Pursuant to the OSHPD Agreements, District has assigned all rental income from the hospital facility as follows:

08/01/1998 – 07/31/2018	\$100,000 per year
08/01/2018 – 07/31/2020	\$500,000 per year, minimum, regardless of the amount of rent actually paid/collected
08/01/2020 – 01/31/2026	all rental income, if any

The District’s obligation is only to assign and pay over to OSHPD the rental income as specified above. The Agreement contains a provision that if the District defaults on the repayment provisions, the District owes OSHPD \$1,400,000, with interest thereon at an annual rate of 6.5%, less all of the rental payments received by OSHPD as of the date of the rental payments cease. The District is not in default of these payment provisions.

The assignment of rents is evidenced by an Absolute Assignment of Rents recorded in Contra Costa County as document number 98-2026029-00 on August 27, 1998. The obligation is secured by two Deeds of Trust on the hospital parcel, both dated May 1, 2000. The assignment and the OSHPD Agreements were part of the District’s bankruptcy plan approved by the court.

The following is a schedule of the lease assignment payable and the related sublease income subsequent to June 30, 2013:

Year ending June 30:	<u>Assignment of Lease Obligations</u>	<u>Sublease Income- Contra Costa County</u>
2014	\$ 100,000	\$ 100,000
2015	\$ 100,000	\$ 100,000
2016	\$ 100,000	\$ 100,000
2017	\$ 100,000	\$ 100,000
2018-2020	\$ 1,100,000	Unknown since lease with County expires July 31, 2018.

Assignment of this contractual obligation is reported in the financial statements as follows:

<u>Balance June 30, 2012</u>	<u>Repayments</u>	<u>Balance June 30, 2013</u>	<u>Current</u>	<u>Long Term</u>
\$1,006,232	(\$34,595)	\$971,637	\$36,844	\$934,793

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The California Office of Statewide Health Planning and Development considers the contractual obligation as an assignment of rents, with no fixed principal or interest rates attached to the assignment. The Office calculates its value based on the present discounted value of the stream of income discounted by one percent which is slightly more than the current rate of return on the Pooled Money Investment Account maintained by the State Treasurer. The present discounted value of this stream of income as of June 30, 2013 was at least \$1,336,952.

NOTE 6 - GRANTS TO COMMUNITY ORGANIZATIONS

A community's health care needs are served by a broad array of health-related programs and initiatives that promote physical, emotional and psychological well being. LMCHD uses the District's grant making and initiative process to leverage District assets to make significant contribution to the health of the community focusing on the uninsured and underserved populations in the community.

The District funded the following programs during the fiscal year ended June 30, 2013:

Community Garden	\$	2,168
St. Vincent de Paul-RotoCare		50,000
City of Pittsburg-Swim Academy		27,399
Student Eyeglasses Program		11,456
CPR/FAST & Other		15,027
Summer Grant		45,340
One Time Grants		<u>176,014</u>
Total	\$	<u><u>327,404</u></u>

NOTE 7 - CONTINGENCIES

The District is involved in legal actions arising in the ordinary course of business. In the opinion of the District's management, the District has adequate legal defense or insurance coverage with respect to each of these actions and does not believe that they will materially affect the District's results of operations or financial position.

NOTE 8 - EVALUATION OF SUBSEQUENT EVENT

The management of the District reviewed the results of operations for the period of time from its year end June 30, 2013 through April 22, 2014, the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013**

	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual</u>	<u>Variance with Budget over (under)</u>
REVENUES				
Property tax receipts	\$ 670,000	\$ 670,000	\$ 669,235	\$ (765)
AB 1290 pass-through/other income	25,000	25,000	7,904	(17,096)
Other income			2,848	2,848
Interest income	<u>3,000</u>	<u>3,000</u>	<u>2,757</u>	<u>(243)</u>
Total revenues	<u>698,000</u>	<u>698,000</u>	<u>682,744</u>	<u>(15,256)</u>
COMMUNITY AND HEALTH PROGRAM EXPENDITURES				
Community grants	308,600	348,940	327,404	(21,536)
Program/Outreach Expenses	3,200	3,200	3,255	55
Grant administration	<u>90,600</u>	<u>90,600</u>	<u>14,300</u>	<u>(76,300)</u>
Total community and health program expenditures	<u>402,400</u>	<u>442,740</u>	<u>344,959</u>	<u>(97,782)</u>
GENERAL ADMINISTRATION				
Salary and benefits	76,187	76,187	182,786	106,599
Board stipend and meeting expenses	24,000	24,000	23,261	(739)
Board election charges	40,000	40,000	41,160	1,160
Professional services	70,950	70,950	77,433	6,483
Legal services	30,000	30,000	28,897	(1,103)
Office supplies and maintenance	15,044	15,044	16,088	1,044
Communication	1,000	1,000	1,380	380
Insurance	18,610	18,610	18,976	366
Travel & Seminars	5,750	5,750	14,370	8,620
Other	<u>23,300</u>	<u>23,300</u>	<u>19,151</u>	<u>(4,149)</u>
Total general administration expenditures	<u>304,841</u>	<u>304,841</u>	<u>423,502</u>	<u>118,661</u>
TOTAL EXPENDITURES	<u>707,241</u>	<u>747,581</u>	<u>768,461</u>	<u>20,880</u>
EXCESS OF EXPENDITURES OVER REVENUE	(9,241)	(49,581)	(85,717)	(36,136)
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(14,100)</u>	<u>(14,100)</u>	<u>(14,035)</u>	<u>65</u>
Net change in fund balance	(23,341)	(63,681)	(99,752)	(36,071)
Fund balance - beginning of year	<u>1,210,103</u>	<u>1,210,103</u>	<u>1,210,103</u>	
Fund balance - end of year	<u>\$ 1,186,762</u>	<u>\$ 1,146,422</u>	<u>\$ 1,110,351</u>	<u>\$ (36,071)</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Los Medanos Community Healthcare District
Pittsburg, California

We have audited 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, the financial statements of the governmental activities, the business-type activities, and major funds information of Los Medanos Community Healthcare District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 22, 2014. Our report includes an emphasis of matter paragraph indicating that the District adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Parmi - A. A. A. A.
Oakland, California
April 22, 2014

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013**

There were no findings reported in the current year.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2013**

There were no findings in the prior year.