

Audited Combined Financial Statements

LOMPOC
VALLEY MEDICAL CENTER

June 30, 2018

JWT & Associates, LLP
Certified Public Accountants

Audited Combined Financial Statements

LOMPOC VALLEY MEDICAL CENTER

June 30, 2018

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Management's Discussion and Analysis

LOMPOC VALLEY MEDICAL CENTER

June 30, 2018

Management of the Lompoc Valley Medical Center (the District) has prepared this annual discussion and analysis in order to provide an overview of the Hospital's performance for the fiscal year ended June 30, 2018 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 and 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, 2018 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets increased \$3.8 million over prior fiscal year. Total cash and cash equivalents increased \$11.9 million (see the Statements of Cash Flows for changes). Net patient accounts receivable (A/R) increased \$1.3 million. Net days in outstanding patient accounts receivable were 23.0 compared to 28.4 prior year. The decrease in A/R days contributed \$1.3 million to cash and cash equivalents. Other receivables decreased \$4.3 million.
- Current assets increased \$6.4 million while current liabilities increased \$0.8 million when compared to the prior fiscal year. The current ratios for current and prior years were 4.16 and 3.89, respectively.
- Net operating revenues increased \$0.8 million while operating expenses decreased \$0.8 million.
- There was an operating gain of \$1.5 million compared to an operating loss of \$33,000 in the prior year.
- The increase in net position was \$3.7 million compared to \$1.8 million in the prior year.
- Governmental supplemental programs provided approximately \$17.8 million additional reimbursement.

Cash and Investments

At fiscal year ended June 30, 2018, operating and board designated cash and investments totaled \$29.3 million compared to \$17.4 million in fiscal year 2017. Days of cash on hand increased to 125.9 compared to 75.0 in the prior year. The District maintains sufficient cash and cash equivalents to pay all short-term liabilities.

Management's Discussion and Analysis (continued)

LOMPOC VALLEY MEDICAL CENTER

Current Liabilities

As previously noted, current liabilities increased \$0.8 million. Current maturities of debt borrowings decreased - \$156,000, accounts payable decreased \$1.2 million, accrued payroll and related expenses increased \$425,000 and estimated third party payor settlements increased \$1.7 million.

Capital Assets

Capital assets decreased \$4.0 million impacted by \$2.5 million invested in new assets, offset by \$6.5 million in depreciation expense. The \$2.5 million of new assets was balanced between information system enhancements, remodeling of the Comprehensive Care Center (skilled nursing unit) and clinics, and various medical and surgical equipment additions and upgrades.

Programs

Most significantly, the Champion Center, a chemical dependency recovery hospital, closed at end of last fiscal year. Physician alignment continued through fiscal year 2018 with increased physician recruitment into the multi-specialty clinic and acquisition of a private orthopedic practice. Discussions have begun with Sansum Clinic regarding the possible ownership transition of their Lompoc facility to the District. The Comprehensive Care Center developed and implemented a Certified Nursing Assistant (CNA) class to address the shortage of qualified candidates in the area. Focus on community outreach expanded to include lactation and obesity education and training, in an effort to improve healthy life styles and outcomes for patients. These services continue to enhance patient access and expand vital services to the local community.

Volumes

Significant patient activity in fiscal year 2018 included:

- Acute patient days were 7,399 compared to 8,336 in the prior year.
- Patient/resident days in the District's skilled nursing facility were 33,047 compared to 36,058 in the prior year. The average daily census for the two periods was 90.5 and 98.8, respectively.
- Surgery and endoscopy cases for the fiscal year 2018 were 3,693 compared to 3,988 in the prior year.
- Emergency department visits were 24,661 in 2018 compared to 24,807 in 2017.

Management's Discussion and Analysis (continued)

LOMPOC VALLEY MEDICAL CENTER

- Outpatient visits were 45,604 in 2018 compared to 43,810 in 2017.
- Other ancillary services/procedure correlated fairly consistently with changes experienced in the ED and outpatient visits.

Gross Patient Charges

The District charges all patients equally based on an established pricing structure for the services rendered. Generally, charges are increased on an annual basis. Total gross charges increased \$5.5 million over prior year. Specific growth by major payer included Medicare - \$8.2 million, Medi-Cal - \$2.5 million. Commercial and other payers dropped \$5.2 million. These changes in gross charges are a composite of new programs, volume changes and price changes.

Deductions From Revenue

Deductions from revenue are comprised of contractual allowances, provision for doubtful accounts and charity care. Contractual allowances are computed based on the difference between gross charges and the contractually agreed upon methods and rates of reimbursement with government-based programs such as Medicare and Medi-Cal and other third party payers such as Anthem Blue Cross. Deductions from revenue were 48.6% for the fiscal year 2018 compared to 47.5% for the fiscal year 2017.

Traditional charity care, uncompensated care, administrative adjustments and the provision for doubtful accounts for the fiscal years 2018 and 2017 were \$6.9 million and \$5.7 million, respectively.

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 increased \$1.1 million over 2017 due the aforementioned new programs and government supplemental payments.

Management's Discussion and Analysis (continued)

LOMPOC VALLEY MEDICAL CENTER

Operating Expenses

Total operating expenses in fiscal year 2018 were \$91.6 million compared to \$92.4 million in 2017. The 0.8% decrease was due primarily to the closure of the Champion Center operations. This decrease was offset by increases in expenses due to the expansion of physician alignments and, to a lesser degree, inflationary factors. Significant changes occurred in the following areas:

- Salaries, wages and benefits decreased \$1.8 million somewhat attributed to decreases in the District's self-funded worker's compensation program and the closure of the Champion Center. Productive full time equivalents (FTEs) in the fiscal year 2018 were 537.7 compared to 530.1 in the prior year. The increase was associated with clinic acquisition, CNA training and a decline in productivity.
- Professional and other fees increased \$1.3 million due primarily to physician alignment and hospital-based physician services.
- Purchased services decreased \$0.9 million due to the elimination of Medicare validation survey expenses in the prior year.
- Depreciation decreased \$1.2 million due to equipment purchased in 2010 reaching fully depreciated status based on estimated useful lives as mandated by government agencies.
- Insurance increased \$0.4 million due to the increase in clinic physicians.
- Other expenses varied only marginally.

Economic Factors and Next Fiscal Year's Budget

The District's Board approved the fiscal year ending June 30, 2019 capital and operating budgets at its May, 2018 Board meeting. Key budget assumptions included:

- The consolidated budget projects a \$2.6 million increase in the District's net position.
- Based on recent history, volume projections for 2019 were fairly consistent with the prior year volumes with a few modest increase exceptions. Physician clinics were projected to have the greatest increase as newly recruited physicians were anticipated to bring practices closer to maturity.
- Medicare reimbursement was based on the current IPPS rules information. Supplemental reimbursement and PRIME funding were included in Medicaid reimbursement. Commercially insured reimbursement was based on current contracts.

Management's Discussion and Analysis (continued)

LOMPOC VALLEY MEDICAL CENTER

Operating expenses were expected to keep pace with the projected revenues.

The District continues to explore opportunities to further align with local physicians and/or recruit certain specialties to the community in order to capture some of the outmigration and expectations of the community it serves. The outcome of the Sansum Clinic discussions will play a critical role in healthcare for the Lompoc Community over the next year.

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon Avenue, Suite 211, Fresno, California 93720
Voice: (559) 431-7708 Fax: (559) 431-7685 Email: rijetcpa@aol.com

Report of Independent Auditors

The Board of Directors
Lompoc Valley Medical Center
Lompoc, California

We have audited the accompanying combined financial statements of the Lompoc Valley Medical Center, a district hospital (the District) which comprise the combined balance sheets as of June 30, 2018 and 2017, and the related combined statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the District at June 30, 2018 and 2017, and the results of its combined 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 combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied 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.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining balance sheet and the combining statement of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

JW7 & Associates, LLP

Fresno, California
September 15, 2018

Combined Balance Sheets

LOMPOC VALLEY MEDICAL CENTER

	June 30	
	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,684,406	\$ 15,745,553
Assets limited as to use available for current debt service	3,158,344	3,025,065
Patient accounts receivable, net of allowances	5,733,018	6,994,389
Other receivables and physician advances	13,985,842	18,283,486
Estimated third party payor settlements, net		225,020
Inventories	1,300,683	1,204,727
Prepaid expenses and deposits	<u>893,523</u>	<u>873,539</u>
Total current assets	52,755,816	46,351,779
Assets limited as to use	6,500,729	5,079,538
Capital assets, net of accumulated depreciation	<u>88,767,053</u>	<u>92,745,600</u>
	148,023,598	144,176,917
Deferred outflows of resources	<u>354,970</u>	<u>374,599</u>
	<u>\$148,378,568</u>	<u>\$144,551,516</u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 1,781,782	\$ 1,625,463
Accounts payable and accrued expenses	5,956,379	7,199,297
Accrued payroll and related liabilities	3,507,477	3,082,725
Estimated third party payor settlements, net	<u>1,435,872</u>	<u> </u>
Total current liabilities	12,681,510	11,907,485
Other liabilities, less current portion	4,597,394	3,423,635
Debt borrowings, net of current maturities	<u>87,161,486</u>	<u>89,022,444</u>
	104,440,390	104,353,564
Net Position		
Invested in capital assets, net of related debt	1,972,433	4,321,339
Restricted, by bond indenture agreements for debt service	7,379,024	5,840,247
Unrestricted	<u>34,586,721</u>	<u>30,036,366</u>
Total net position	<u>43,938,178</u>	<u>40,197,952</u>
	<u>\$148,378,568</u>	<u>\$144,551,516</u>

See accompanying notes and auditor's report

Combined Statements of Revenues, Expenses and Changes in Net Position

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 90,917,108	\$ 89,841,740
Capitation revenue	152,246	103,948
Other operating revenues	<u>2,091,737</u>	<u>2,441,625</u>
Total operating revenues	93,161,091	92,387,313
Operating expenses		
Salaries and wages	35,005,869	36,261,022
Employee benefits	12,072,808	12,557,226
Professional and other fees	6,681,084	5,425,894
Registry and other contract labor	3,455,771	2,119,143
Supplies	13,872,294	13,630,875
Purchased services	7,320,125	8,183,462
Utilities	1,387,753	1,402,788
Building and equipment rent	501,784	542,226
Insurance	1,318,307	936,357
Depreciation and amortization	6,599,003	7,793,274
Other operating expenses	<u>3,426,315</u>	<u>3,567,840</u>
Total operating expenses	<u>91,641,113</u>	<u>92,420,107</u>
Operating income (loss)	1,519,978	(32,794)
Nonoperating revenues (expenses)		
District tax revenues	5,102,719	4,837,976
Investment income	375,189	266,681
Interest expense	(3,364,910)	(3,425,187)
Gain (loss) on disposals of property	3,250	7,592
Contributions	<u>104,000</u>	<u>142,847</u>
Total nonoperating revenues (expenses)	<u>2,220,248</u>	<u>1,829,909</u>
Increase in net position	3,740,226	1,797,115
Net position at beginning of the year	<u>40,197,952</u>	<u>38,400,837</u>
Net position at end of the year	<u>\$ 43,938,178</u>	<u>\$ 40,197,952</u>

See accompanying notes and auditor's report

Combined Statements of Cash Flows

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$ 93,999,718	\$ 86,143,562
Cash received from operations, other than patient services	6,389,381	1,987,963
Cash payments to suppliers and contractors	(39,335,384)	(34,998,573)
Cash payments to employees and benefit programs	<u>(46,886,669)</u>	<u>(48,342,076)</u>
Net cash provided by operating activities	14,167,046	4,790,876
Cash flows from noncapital financing activities:		
District tax revenues	1,136,620	977,000
Contributions	<u>104,000</u>	<u>142,847</u>
Net cash provided by noncapital financing activities	1,240,620	1,119,847
Cash flows from capital and related financing activities:		
District tax revenues related to capital financing from bonds	5,372,602	3,860,976
Purchase of capital assets, disposals and other changes	(4,379,190)	(1,498,736)
Change in deferred tax revenues	(1,406,503)	
Principal payments on debt borrowings and premium accretion	(1,625,463)	(1,984,857)
Interest on debt borrowings	<u>(3,354,918)</u>	<u>(3,425,187)</u>
Net cash used in capital financing activities	(5,393,472)	(3,047,804)
Cash flows from investing activities:		
Net (purchase) or sale of investments	1,554,470	473,727
Interest received from investments	<u>370,189</u>	<u>266,681</u>
Net cash provided by investing activities	<u>1,924,659</u>	<u>740,408</u>
Net increase (decrease) in cash and cash equivalents	11,938,853	3,603,327
Cash and cash equivalents at beginning of year	<u>15,745,553</u>	<u>12,142,226</u>
Cash and cash equivalents at end of year	<u>\$ 27,684,406</u>	<u>\$ 15,745,553</u>

See accompanying notes and auditor's report

Combined Statements of Cash Flows (continued)

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 1,514,986	\$ (32,794)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,599,003	7,793,274
Provision for uncollectible accounts	4,778,493	3,127,977
Changes in operating assets and liabilities:		
Patient accounts receivables	(3,517,122)	(3,934,269)
Other receivables	4,297,644	(3,453,662)
Inventories	(95,956)	(106,178)
Prepaid expenses and deposits	(19,984)	(120,771)
Accounts payable and accrued expenses	(1,242,918)	1,036,961
Accrued payroll and related liabilities	424,752	442,979
Estimated third party payor settlements	1,660,892	4,166
Workers' compensation claims payable, net of current	(232,744)	33,193
Net cash provided by operating activities	<u>\$ 14,167,046</u>	<u>\$ 4,790,876</u>

See accompanying notes and auditor's report

Notes to Combined Financial Statements

LOMPOC VALLEY MEDICAL CENTER

June 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Lompoc Valley Medical Center (the District) is a public entity healthcare district organized under Local Hospital 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 district to specified terms of office. The District is located in Lompoc, California and operates a 60-bed acute care hospital, a 110-bed skilled nursing facility, and other patient services. The District provides health care services primarily to individuals who reside in the local geographic area. A combining statement is presented in the supplementary information to these combined financial statements

Basis of Preparation: The accounting policies and combined 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 combined 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.

Use of Estimates: The preparation of the combined 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 combined financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Investments: 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.

LOMPOC VALLEY MEDICAL CENTER

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Inventories: Inventories are consistently reported from year to year at cost determined on combination of first-in, first-out (FIFO) basis for certain types of inventory and replacement values which are not in excess of market, for other types of inventory.

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.

Investments: Investments are stated at fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated value as represented by the external pool. All investments are stated at their fair value. The District has elected not to report investments at amortized cost.

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. During periods of asset construction, the District capitalizes interest cost net of any interest earned on temporary investments of the proceeds set aside for construction projects funded by tax-exempt debt borrowings. Interest expense is also capitalized for projects financed with operating funds.

Depreciation of property and equipment and amortization of property under capital leases are combined in the statements of revenues, expenses and changes in net position and 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 10 years for equipment. The District periodically reviews its capital assets for value impairment. As of June 30, 2018 and 2017, the District has determined that no capital assets are significantly impaired.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources: Deferred outflows of resources (formerly debt borrowing issue costs) are comprised of deferred financing cost of the issuance of debt borrowings. Amortization of these deferred outflows are computed by the straight-line method over the life of the repayment agreements. For current and advance refundings, which result in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized deferred financing costs, is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Net amortization was \$19,630 and \$19,630 for the years ended June 30, 2018 and 2017, respectively.

Compensated Absences: The District's employees earn paid-time-off (PTO) benefits at varying rates depending on years of service. PTO benefits can accumulate up to specified maximum levels. Employees are paid for PTO accumulated benefits if they leave either upon termination or separation. Accrued PTO liabilities as of June 30, 2018 and 2017 were \$2,117,632 and \$2,168,429, respectively.

Risk Management: The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Net position: Net position is presented in three categories. The first category of net position is "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 assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation. The third category is "unrestricted" net position. This category consists of net position that does not meet the definition or criteria of the previous two categories

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

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 revenues and then written off entirely as an adjustment to net patient service revenues. Partial payments to which the District is entitled from public assistance programs on behalf of certain patients that meet the District's charity care criteria are reported under net patient service revenues. These supplemental programs are generally funded from governmental agencies and others. Total charity care was \$2,096,069 and \$1,373,264 for the years ended June 30, 2018 and 2017, respectively.

District Tax Revenues: The District receives approximately 5.0% of its financial support from property 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. Property 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. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

Grants and Contributions: From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

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.

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

LOMPOC VALLEY MEDICAL CENTER

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2018 and 2017, the District had deposits with various financial institutions in the form of operating cash and cash equivalents amounting to \$6,894,317 and \$13,013,920. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), and are federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure 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. Investments consist of U.S. Government securities and state and local agency funds invested in U. S. Government securities and are stated at quoted market values. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net position.

NOTE C - NET PATIENT SERVICE REVENUES

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

Medicare: Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary accordingly to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. The District is, generally, no longer subject to cost reimbursable services. Certain reimbursement areas are still subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2018, cost reports through June 30, 2015 have been audited or otherwise final settled.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal patients are made based on reasonable costs through December 31, 2013. Effective January 1, 2014, the State of California's Medi-Cal program changed inpatient reimbursement to Diagnosis-Related Groups (DRG), as mandated by Senate Bill 853 and added to section 14105.28 of the Welfare and Institution Code. Outpatient payments continue to be paid on pre-determined charge screens. The District is paid for cost-based long-term care services at rates determined by the State. Rates are updated annually based on the State's rate setting methodology. The rates are prospective and therefore no final settlement is determined after submission of annual cost reports and audits thereof by the State. At June 30, 2018, cost reports through June 30, 2016, have been audited or otherwise final settled.

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.

Notes to Combined Financial Statements (continued)

LOMPOC VALLEY MEDICAL CENTER

NOTE C - NET PATIENT SERVICE REVENUES (continued)

Net patient service revenues summarized by payor are as follows:

	<u>2018</u>	<u>2017</u>
Medicare services	\$ 69,475,729	\$ 65,135,016
Medi-Cal services	56,696,424	54,206,628
Commercial insurance and other payors	<u>50,557,721</u>	<u>51,907,044</u>
Gross patient service revenues	176,729,874	171,248,688
Less estimated deductions from revenue	<u>(85,812,766)</u>	<u>(81,406,948)</u>
Net patient service revenues	<u>\$ 90,917,108</u>	<u>\$ 89,841,740</u>

Medicare and Medi-Cal gross patient revenues were approximately 71% and 67% of the District's total gross patient revenues for 2018 and 2017, respectively. 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 deduction from revenue estimates could change by material amounts in the near term.

NOTE D - 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 5,270,524	\$ 4,334,036
Medi-Cal	4,523,340	5,328,805
Other third party payors	4,424,664	5,042,326
Self pay and other	<u>1,130,071</u>	<u>2,777,354</u>
Patient accounts receivable, before allowances	15,348,599	17,482,521
Less allowances for deductions from revenue	<u>(9,615,581)</u>	<u>(10,488,132)</u>
Patient accounts receivable, net of allowances	<u>\$ 5,733,018</u>	<u>\$ 6,944,389</u>

LOMPOC VALLEY MEDICAL CENTER

NOTE D - CONCENTRATION OF CREDIT RISK (continued)

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000. Although deposits exceed the limit in certain bank accounts, management believes that the risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss due to concentration of credit risk with regards to investments as the District has no investments in equity funds, closed-end funds, exchange-traded products, or other perceived “at risk” alternatives as of June 30, 2018 and 2017.

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2018 and 2017 were comprised of the following:

	<u>2018</u>	<u>2017</u>
Receivable from government supplemental programs	\$ 12,309,739	\$ 17,538,437
Interest receivable from various investments	67,396	10,070
Employee loans	64,200	69,508
Physician property note receivable	214,804	240,876
Other various receivables	<u>1,329,703</u>	<u>424,595</u>
	<u>\$ 13,985,842</u>	<u>\$ 18,283,486</u>

The District is involved in various governmental subsidies designed as supplemental payments to hospitals for various types of additional payments revolving around patients and patient utilization. These supplemental payments are recorded as a contra to deductions from revenue due to the nature of the payments and as directed by the State for reporting purposes.

NOTE F - RELATED PARTY TRANSACTIONS

The Lompoc Hospital District Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501(c)(3) to solicit contributions on behalf of the District. Substantially all funds raised, except for funds required for operation of the Foundation, are distributed to the District or held for the benefit of the District. The Foundation's funds are distributed to the District in amounts and in periods determined by the Foundation's Board of Directors, who may also restrict the use of funds for District property and equipment replacement or expansion or other specific purposes. Donations by the Foundation were \$82,500 and \$125,000 for the years ended June 30, 2018 and 2017, respectively.

Notes to Combined Financial Statements (continued)

LOMPOC VALLEY MEDICAL CENTER

NOTE G - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2018 and 2017 were comprised of the following:

Restricted for the following various purposes:	<u>2018</u>	<u>2017</u>
Cash, cash equivalents and debt securities for board purposes	\$ 1,658,994	\$ 1,647,479
Cash, cash equivalents and debt securities, in trust agreements	<u>8,000,079</u>	<u>6,457,124</u>
	9,659,073	8,104,603
Less assets limited as to use available for current debt service	<u>(3,158,344)</u>	<u>(3,025,065)</u>
	<u>\$ 6,500,729</u>	<u>\$ 5,079,538</u>

NOTE H - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2018 and 2017:

<i>As of June 30, 2018</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	\$ 681,927	\$ 681,927		
Local agency investment fund	<u>22,442,681</u>	<u>22,442,681</u>		
Total investments	<u>\$ 23,124,608</u>	<u>\$ 23,124,608</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

<i>As of June 30, 2017</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	\$ 681,858	\$ 681,858		
Local agency investment fund	<u>4,372,809</u>	<u>4,372,809</u>		
Total investments	<u>\$ 5,054,667</u>	<u>\$ 5,054,667</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.

Local Agency Investment Fund: The State makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Investments are highly liquid and can be converted to cash within 24 hours. Participation in LAIF is voluntary and is limited to \$40 million for each entity. The fair value of the District's investment in LAIF is reported based on the District's pro rata share of the fair value provided by LAIF for the entire portfolio.

LOMPOC VALLEY MEDICAL CENTER

NOTE H - INVESTMENTS (continued)

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways a hospital 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 hospital 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.

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 a hospital'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), a hospital would not be able to recover the value of its investment or collateral securities that are in the possession of another party. A hospital'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 a hospital's investment in a single issuer. A hospital'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 I - EMPLOYEES' RETIREMENT PLAN

The District offers a 457 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.

Effective July 1, 2011, the District offers a 401(a) employer funded retirement plan to eligible employees. Employees will be vested based upon a "tiered" schedule, with 100% vesting after three years.

Notes to Combined Financial Statements (continued)

LOMPOC VALLEY MEDICAL CENTER

NOTE J - CAPITAL ASSETS

Capital assets as of June 30, 2018 and 2017 were comprised of the following:

	<u>Balance at June 30, 2017</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2018</u>
Land and land improvements	\$ 14,363,832			\$ 14,363,832
Buildings and improvements	111,734,930	\$ 50,931		111,785,861
Equipment	43,132,514	1,414,963	\$ (294,816)	44,252,661
Construction-in-progress	<u>849,719</u>	<u>1,001,612</u>	<u> </u>	<u>1,851,331</u>
Totals at historical cost	170,080,995	2,467,506	(294,816)	172,253,685
Less accumulated depreciation for:				
Land and land improvements	(4,196,373)	(520,435)		(4,716,808)
Buildings and improvements	(38,325,810)	(3,952,510)		(42,278,320)
Equipment	<u>(34,813,212)</u>	<u>(1,973,108)</u>	<u>294,816</u>	<u>(36,491,504)</u>
Total accumulated depreciation	<u>(77,335,395)</u>	<u>(6,446,053)</u>	<u>294,816</u>	<u>(83,486,632)</u>
Capital assets, net	<u>\$ 92,745,600</u>	<u>\$ (3,978,547)</u>	<u>\$ -0-</u>	<u>\$ 88,767,053</u>

	<u>Balance at June 30, 2016</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
Land and land improvements	\$ 14,363,832			\$ 14,363,832
Buildings and improvements	108,925,093	\$ 2,809,837		111,734,930
Equipment	42,169,830	962,684		43,132,514
Construction-in-progress	<u>3,151,112</u>	<u>(2,301,393)</u>	<u> </u>	<u>849,719</u>
Totals at historical cost	168,609,867	1,471,128		170,080,995
Less accumulated depreciation for:				
Land and land improvements	(3,657,925)	(538,448)		(4,196,373)
Buildings and improvements	(34,265,574)	(4,060,236)		(38,325,810)
Equipment	<u>(31,673,452)</u>	<u>(3,139,760)</u>	<u> </u>	<u>(34,813,212)</u>
Total accumulated depreciation	<u>(69,596,951)</u>	<u>(7,738,444)</u>	<u> </u>	<u>(77,335,395)</u>
Capital assets, net	<u>\$ 99,012,916</u>	<u>\$ (6,267,316)</u>	<u>\$ -0-</u>	<u>\$ 92,745,600</u>

Notes to Combined Financial Statements (continued)

LOMPOC VALLEY MEDICAL CENTER

NOTE K - DEBT BORROWINGS

As of June 30, 2018 and 2017, debt borrowings were as follows:

	<u>2018</u>	<u>2017</u>
Lompoc Valley Medical Center 2013 General Obligation Refunding Bonds; principal due each August 1 st at various amounts through August 1, 2031; interest due semi-annually on August 1 st and February 1 st (3.00% to 5.00%); collateralized by District property tax revenues:	\$ 38,085,000	\$ 38,900,000
Lompoc Valley Medical Center Insured Revenue Bonds, Series 2013; principal due each July 1 st at various amounts through July 1, 2032; interest due semi-annually on July 1 st and January 1 st (3.00% to 4.00%); collateralized by District revenues and other property:	17,625,000	18,055,000
Lompoc Healthcare District 2014 General Obligation Refunding Bonds, principal payment due each August 1 st at various amounts through August 1, 2037; interest due semi-annually on August 1 st and February 1 st (2% to 5%) collateralized by District property tax revenues:	31,590,000	31,895,000
Note payable with a bank; principal and interest due on the end of each month at \$6,515 through December 31, 2019; interest charged at 1.81% considered a capital lease obligation; collateralized by Hospital	115,675	191,138
Bond premiums	<u>1,527,593</u>	<u>1,606,769</u>
	88,943,268	90,647,907
Less current maturities of debt borrowings	<u>(1,781,782)</u>	<u>(1,625,463)</u>
	<u>\$ 87,161,486</u>	<u>\$ 89,022,444</u>

Future principal maturities for debt borrowings for the next five succeeding years are: \$1,781,782 in 2019; \$1,913,893 in 2020; \$2,065,000 in 2021; \$2,255,000 in 2022; and \$2,455,000 in 2023.

LOMPOC VALLEY MEDICAL CENTER

NOTE L - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2018, the District has recorded \$1,851,331 as construction-in-progress representing cost capitalized for various remodeling and expansion projects on the District's premises. Future costs to complete all projects as of June 30, 2018 are approximately considered minor.

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, 2018 and 2017, was \$501,784 and \$542,226, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2018, that have initial or remaining lease terms in excess of one year 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, 2018 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 \$10 million per claim and \$20 million in the annual aggregate, with a per claim deductible of \$10,000. 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 self-funded for its workers' compensation and has been issued a Certificate of Consent to Self-Insure by the State of California, Department of Industrial Relations. The District purchases excess liability insurance to provide coverage for workers' compensation claim exposures over its self-insurance retention limit of \$750,000. Workers's compensation expense for the years ended June 30, 2018 and 2017, was \$388,284 and \$764,460, respectively.

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, 2018 and 2017.

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 Combined Financial Statements (continued)

LOMPOC VALLEY MEDICAL CENTER

NOTE M - CHARITY CARE AND COMMUNITY BENEFIT EXPENSE

The District monitors the level of charity care and community service it provides. The amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care policies are presented in the following summary which is a compilation of the District's charity care and community benefit expense for the years ended June 30, 2018 and 2017, in terms of services to the poor and benefits to the broader community:

	<u>2018</u>	<u>2017</u>
Benefits for the poor:		
Traditional charity care	\$ 2,096,069	\$ 1,373,264
Uncompensated care and administrative write-offs	<u>348,828</u>	<u>715,087</u>
Total net charity and uncompensated care	2,444,897	2,088,351
Unpaid Medi-Cal program charges	<u>18,253,858</u>	<u>16,638,456</u>
Total quantifiable benefits for the poor	20,698,755	18,726,807
Benefits for the broader community:		
Unpaid Medicare program charges	<u>44,311,557</u>	<u>41,762,423</u>
Total quantifiable benefits for the broader community	<u>44,311,557</u>	<u>41,762,423</u>
Total quantifiable community benefits	<u>\$ 65,010,312</u>	<u>\$ 60,489,230</u>

NOTE N - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the combined financial statements through September 15, 2018, the date the combined financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

SUPPLEMENTARY SCHEDULES

Combining Balance Sheet

LOMPOC VALLEY MEDICAL CENTER

June 30, 2018

	<u>Hospital</u>	<u>Champion Center</u>	<u>Eliminations</u>	<u>Combined Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 27,684,406			\$ 27,684,406
Assets limited as to use	2,391,129	\$ 767,215		3,158,344
Patient accounts receivable	5,693,303	39,715		5,733,018
Other receivables	13,985,842			13,985,842
Inventories	1,300,683			1,300,683
Prepaid expenses and deposits	<u>893,523</u>			<u>893,523</u>
Total current assets	51,948,886	806,930		52,755,816
Assets limited as to use	5,294,270	1,206,459		6,500,729
Capital assets, net	<u>69,269,090</u>	<u>19,497,963</u>		<u>88,767,053</u>
	126,512,246	21,511,352		148,023,598
Deferred outflows of resources	<u>354,970</u>			<u>354,970</u>
	<u>\$126,867,216</u>	<u>\$ 21,511,352</u>		<u>\$148,378,568</u>
Liabilities				
Current liabilities:				
Current debt maturities	\$ 1,336,782	\$ 445,000		\$ 1,781,782
Accounts payable	4,196,025	1,760,354		5,956,379
Accrued payroll	3,507,477			3,507,477
Estimated settlements, net	<u>1,435,872</u>			<u>1,435,872</u>
Total current liabilities	10,476,156	2,205,354		12,681,510
Workers' compensation claims	4,597,394			4,597,394
Debt borrowings, less current	<u>69,331,812</u>	<u>17,829,674</u>		<u>87,161,486</u>
	84,405,362	20,035,028		104,440,390
Net Position				
Invested in capital assets	99,470	1,872,963		1,972,433
Restricted for debt service	5,405,350	1,973,674		7,379,024
Unrestricted (deficit)	<u>36,957,034</u>	<u>(2,370,313)</u>		<u>34,586,721</u>
	<u>42,461,854</u>	<u>1,476,324</u>		<u>43,938,178</u>
	<u>\$126,867,216</u>	<u>\$ 21,511,352</u>		<u>\$148,378,568</u>

Combining Statement of Revenues, Expenses and Changes in Net Position

LOMPOC VALLEY MEDICAL CENTER

June 30, 2018

	<u>Hospital</u>	<u>Champion Center</u>	<u>Eliminations</u>	<u>Combined Total</u>
Operating revenues				
Net patient service revenues	\$ 91,007,823	\$ (90,715)		\$ 90,917,108
Capitation revenue	152,246			152,246
Other operating revenues	<u>2,091,737</u>	<u>694,894</u>	<u>(694,894)</u>	<u>2,091,737</u>
Total operating revenues	93,251,806	604,179	(694,894)	93,161,091
Operating expenses				
Salaries and wages	34,592,701	413,168		35,005,869
Employee benefits	11,881,051	191,757		12,072,808
Professional and other fees	6,681,084			6,681,084
Registry	3,455,771			3,455,771
Supplies	13,715,716	156,578		13,872,294
Purchased services	7,812,848	202,171	(694,894)	7,320,125
Utilities	1,142,763	244,990		1,387,753
Building and equipment rent	491,228	10,556		501,784
Insurance	1,283,603	34,704		1,318,307
Depreciation and amortization	5,494,912	1,104,091		6,599,003
Other operating expenses	<u>3,399,820</u>	<u>26,495</u>		<u>3,426,315</u>
Total operating expenses	<u>89,951,497</u>	<u>2,384,510</u>	<u>(694,894)</u>	<u>91,641,113</u>
Operating income (loss)	3,300,309	(1,780,331)		1,519,978
Nonoperating				
District tax revenues	5,102,719			5,102,719
Investment income	375,189			375,189
Interest expense	(2,720,474)	(644,436)		(3,364,910)
Gain on disposals of property	3,250			3,250
Contributions	<u>104,000</u>			<u>104,000</u>
Total nonoperating	<u>2,864,684</u>	<u>(644,436)</u>		<u>2,220,248</u>
Increase (decrease) in net position	6,164,993	(2,424,767)		3,740,226
Net position at beginning of year	<u>36,296,861</u>	<u>3,901,091</u>		<u>40,197,952</u>
Net position at end of year	<u>\$ 42,461,854</u>	<u>\$ 1,476,324</u>	<u>\$</u>	<u>\$ 43,938,178</u>