Report of Independent Auditors and
Financial Statements with Supplementary Information

Palm Drive Health Care District

Years Ended June 30, 2013 and 2012

MOSS-ADAMS LLP

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CONTENTS

MANAGEMENT’S DISCUSSION AND ANALYSIS

Introduction – The management's discussion and analysis of the financial performance of Palm Drive Health Care District (the "District") provides an overview of the District's financial activities for the year ended June 30, 2013 and 2012, respectively. It should be read in conjunction with the accompanying financial statements and footnotes of the District.

Financial Highlights

Year Ended June 30, 2013

- Total assets increased by approximately $1,314,000 from June 30, 2012.
- Total cash and cash equivalents decreased by approximately $129,000 from fiscal year June 30, 2012.
- Patient accounts receivable decreased by approximately $147,000 from June 30, 2012. The net days in patient accounts receivable were 52.0 at June 30, 2013 as compared to 50.7 at June 30, 2012.
- Current assets increased by approximately $626,000 from June 30, 2012, while current liabilities increased by approximately $3,424,000 from June 30, 2012.
- Long-term capital assets increased by approximately $2,033,000 from fiscal year June 30, 2012, while long-term debt decreased by approximately $684,000 from June 30, 2012.
- The increase in net deficit was approximately $1,426,000 for the year ended June 30, 2013.

Year Ended June 30, 2012

- Total assets increased by approximately $457,000 from June 30, 2011.
- Total cash and cash equivalents decreased by approximately $668,000 from fiscal year June 30, 2011.
- Patient accounts receivable increased by approximately $377,000 from June 30, 2011. The net days in patient accounts receivable were 50.7 at June 30, 2012 as compared to 48.25 at June 30, 2011.
- Current assets decreased by approximately $259,000 from June 30, 2011, while current liabilities increased by approximately $626,000 from June 30, 2011.
- Long-term capital assets increased by approximately $819,000 from fiscal year June 30, 2011, while long-term debt increased by approximately $298,000 from June 30, 2011.
- The increase in net deficit was approximately $467,000 for the year ended June 30, 2012.

Overview of Palm Drive Health Care District's Financial Statements

This annual report consists of the audited financial statements and the notes to the financial statements which reflect the District's financial position and operating results for the year ended June 30, 2013. The audited financial statements include the report of the independent auditors, balance sheet, statement of revenues, expenses and changes in net assets, and statement of cash flows. They also include notes to the financial statements.

- The statements of net position includes all of the District's assets and liabilities based on the accrual method of accounting for the year ended June 30, 2013 and 2012.
- The statements of revenues, expenses, and changes in net position present the operating activities of the District during the year ended June 30, 2013 and 2012.
- The statements of cash flows reports the net cash provided by operating activities as well as other sources and uses of cash from various District financial activities.

Cash and Cash Equivalents

For the fiscal year ended June 30, 2013, the District's cash and cash equivalents totaled approximately $391,000 compared to approximately $520,000 at June 30, 2012 and $1.2 million at June 30, 2011. At June 30, 2013, days of operating cash on hand were approximately 4.4 as compared to 6.2 at June 30, 2012 and 13.7 at June 30, 2011. The District's goal is to maintain sufficient cash balances to pay all short-term liabilities and service the long-term debt deposit requirements. The majority of the District's cash is deposited with a local bank in various forms of cash and cash equivalent funds.

Current Assets and Liabilities

During fiscal year ended June 30, 2013, current assets increased by approximately $626,000 with decreases in patient accounts receivable of approximately $147,000 and a decrease in cash and cash equivalents of approximately $129,000. Current liabilities increased by approximately $3,424,000 due mainly to an increase of approximately $2,455,000 in accounts payable and accrued expenses, an increase of approximately $168,000 in accrued payroll and related liabilities, and an increase in current portion of capital lease obligations of approximately $929,000.

During fiscal year ended June 30, 2012, current assets decreased by approximately $259,000 with increases in patient accounts receivable of approximately $377,000 and a decrease in cash and cash equivalents of approximately $668,000. Current liabilities increased by approximately $626,000 due mainly to an increase of approximately $513,000 in accounts payable and accrued expenses and an increase of approximately $77,000 in accrued payroll and related liabilities.

The current ratio at June 30, 2013 is 0.76 as compared to 1.08 at June 30, 2012 and 1.25 at June 30, 2011.

Capital Assets

During the fiscal year ended June 30, 2013, the District reinvested into the facility approximately $2.0 million through the purchase of an upgraded information system, major moveable equipment, and building improvements as compared to the years ending June 30, 2012 and June 30, 2011, where the District reinvested into the facility approximately $1.5 million and $1.6 million respectively. The purchases during fiscal year June 30, 2013, were funded mainly through a new capital lease. In comparison, the 2012 purchases were funded through two new operating leases and in 2011 the purchases were funded from assets limited as to use and cash flows from operations.

Long-Term Debt and District Tax Revenues

During the fiscal year ending June 30, 2013, the District entered into a capital lease for the upgrade of the information system and related equipment. The decrease in long term debt during fiscal year ending June 30, 2013 was approximately $684,000 as compared to an increase in long term debt during fiscal year 2012 of $290,000. During the year ended June 30, 2013, the total tax collections from the health care district totaled $4,164,420 as compared to $4,045,120 in 2012 and $4,047,519 in 2011. These collections service the debt obligations for three separate bond issues totaling $22,940,000 and $23,585,000 in principal as of June 30, 2013 and 2012, respectively.

Volumes

- Acute care patient days were 4,130 for the year ended June 30, 2013 as compared to 4,358 for the year ended June 30, 2012 and 4,139 for the year ended June 30, 2011.

- ER visits were visits 6,929 for the year ended June 30, 2013 as compared to 7,467 for the year ended June 30, 2012 and 6,988 visits for the year ended June 30, 2011.

Gross Patient Charges

The District charges all its patients equally based on its established pricing structure for the services rendered. The District may exercise its policy to increase pricing annually to coincide with the beginning of a new fiscal year.

Inpatient gross service charges were approximately $47,952,000 for the year ended June 30, 2013 as compared to $42,662,000 for the year ended June 30, 2012 and $42,638,000 for the year ended June 30, 2011. Outpatient gross service charges were approximately $45,642,000 for the year ended June 30, 2013 as compared to $42,817,000 for the year ended June 30, 2012 and $43,049,000 for the year ended June 30, 2011.

Deductions from Revenue

Deductions from revenue are a combination of contractual allowances and provisions for bad debts. Contractual allowances are computed deductions based on the difference between gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal and other third party payers such as Blue Cross.

Deductions from revenue (as a percentage of gross patient service charges) were 70.59% for fiscal year ending June 30, 2013 as compared to 67.31% for fiscal year ending June 30, 2012 and 67.42% for the fiscal year ending June 30, 2011. Total deductions from revenue were approximately $66,068,000 for fiscal year ending June 30, 2013 as compared to $57,536,000 for fiscal year ending June 30, 2012 and $57,769,000 for the fiscal year ending June 30, 2011.

Net Patient Service Revenues

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues were approximately $27,488,000 for year ended June 30, 2013 as compared to $27,942,000 for year ended June 30, 2012 and $27,918,000 for the year ended June 30, 2011.

Operating Expenses

Total operating expenses were approximately $33,318,000 for year ended June 30, 2013 as compared to $31,434,000 for year ended June 30, 2012 and $30,757,000 for the year ended June 30, 2011. The net increase from fiscal year ended June 30, 2012 is approximately $1,884,000. The net increase from fiscal year ended June 30, 2011 is approximately $677,000. The significant changes were:

- Labor-related expenses (salaries and wages, employee benefits and contract labor) increased from 2012 by approximately $963,000. The increase in salaries and wages were approximately $1,067,000, benefits increased by approximately $230,000 and there was a decrease in contract labor of approximately $334,000. The increase in salaries and wages are due to the 3% wage increase in January 2013 for non represented employees and employee training time on Paragon, the new information system implemented during fiscal year 2013. The increases in employee benefit costs are due to the increase in the cost of providing health insurance coverage for District employees. The decrease in contract labor was due to the change from the outside management during fiscal year June 30, 2012 from HealthTech to Marin General. Labor-related expenses increased from 2011 by approximately $132,000. The increase in salaries and wages were approximately $106,000, benefits increased by approximately $146,000 and there was a decrease in contract labor of approximately $120,000. The increase in employee benefit costs is due to the increase in the cost of providing health insurance coverage for District employees. The decrease in contract labor was due to the change from the outside management by HealthTech to Marin General. Full time equivalents (FTEs) were 176.1 for fiscal year ending June 30, 2013 as compared to 171.5 for fiscal year ending June 30, 2012 and 173.3 for fiscal year ending June 30, 2011. The combined cost per FTE was $103,173 for the fiscal year ended June 30, 2013 as compared to $99,165 for the fiscal year ended June 30, 2012 and $98,520 for the fiscal year ended June 30, 2011.

- Purchased services overall decreased in 2013 by approximately $442,000. The decrease in purchased services of approximately $357,000 relates to the elimination of the management fee related to HealthTech, which was discontinued in January 2012, and the termination fee associated with the agreement. The decrease in legal fees is approximately $84,000. Purchased services overall decreased slightly in 2012 by approximately $67,000. There was an increase in actual purchased services of approximately $415,000 which was due to the management fee related to HealthTech, which was discontinued in January 2012, and the termination fee associated with the agreement. This increase was offset by a decrease in legal fees of approximately $480,000.

- Supply expenses were approximately $6.3 million in 2013 compared to $5.0 million in 2012 and $4.7 million for 2011. The increase from 2012 is directly related to the increase in spinal cases during fiscal year ending June 30, 2013 along with the general increase in the cost of surgical supplies. The increase from 2011 is directly related to the increase in the cost of surgical supplies.

- During the year ended June 30, 2012, other operating expenses increased approximately $134,000. This was directly related to the travel costs for the interim management provided by HealthTech and the costs of the Intergovernmental Transfer Program. The decrease in other operating expenses during the year ended June 30, 2013 was not significant.

Economic Factors

Fiscal years ended June 30, 2013 and 2012 had seen the District continue its operations of a health care facility for the community with sustained financial solvency as compared to prior years. The District continues to face challenges in sustaining improved utilization of its core services while operating a healthcare facility in a very demanding and economically troubled healthcare environment, both at the State and Federal levels.

The District expects to continue to meet all of its regulatory covenants and service all outstanding debts.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Palm Drive Health Care District

Report on Financial Statements

We have audited the accompanying financial statements of Palm Drive Health Care District (the "District"), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 Information

Our audits were conducted for the purpose of forming an opinion on the District's financial statements as a whole. The supplementary information related to community benefit on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

San Francisco, California
October 25, 2013

FINANCIAL STATEMENTS

PALM DRIVE HEALTH CARE DISTRICT
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 390,598	$ 519,864
Restricted trust funds available for current debt service	1,067,364	1,054,037
Patient accounts receivable, net of allowance for uncollectible accounts of $348,217 and $355,928 at the years ended June 30, 2013 and 2012, respectively	3,920,418	4,067,456
Property taxes receivable	214,909	156,183
Estimated third party payor settlements	848,818	-
Inventories	671,468	699,794
Prepaid expenses and deposits	226,644	216,696
Total current assets	7,340,219	6,714,030
NONCURRENT INVESTMENTS		
Funds held by county for bond debt service	304,926	296,784
Funds held by trustee under bond requirements	1,837,248	1,844,476
Designated by the board or agreements for specific purposes	218,631	2,121,714
	2,360,805	4,262,974
Related party notes receivable	614,648	-
Capital assets, net of accumulated depreciation	13,449,173	11,416,542
Bond issue costs, net of accumulated amortization	1,186,432	1,243,958
Total assets	$ 24,951,277	$ 23,637,504
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 5,755,648	$ 3,300,785
Accrued payroll and related liabilities	1,498,711	1,330,827
Refundable advances	-	60,414
Estimated third party payor payable settlements	-	98,023
Unearned property tax revenues	560,811	560,811
Current portion of capital lease obligations	1,129,117	199,798
Current portion of bonds payable	675,000	645,000
Total current liabilities	9,619,287	6,195,658
Capital lease obligations, net of current portion	1,001,721	1,010,953
Bonds payable, net of current portion	22,265,000	22,940,000
Total liabilities	32,886,008	30,146,611
NET POSITION		
Invested in capital assets, net of related debt	3,961,245	3,424,395
Restricted, by bond indenture agreements and other	3,359,637	3,195,296
Unrestricted (deficit)	(15,255,613)	(13,128,798)
Total net deficit	(7,934,731)	(6,509,107)
Total liabilities and net position	$ 24,951,277	$ 23,637,504

See accompanying notes.

	2013	2012
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of $2,182,667 and $2,466,061 for the years ended June 30, 2013 and 2012, respectively	$ 27,487,982	$ 27,942,314
Capitation revenue	37,734	54,205
Other operating revenue	1,542,197	130,493
Total operating revenues	29,067,913	28,127,012
OPERATING EXPENSES		
Salaries and wages	13,556,148	12,489,022
Employee benefits	4,233,796	4,003,300
Contract labor	378,901	712,790
Professional fees	3,246,744	3,375,719
Supplies	6,288,909	5,025,293
Purchased services	2,390,475	2,832,233
Utilities and phone	378,541	340,454
Repairs and maintenance	393,907	394,951
Rents and leases	341,752	395,377
Insurance	228,884	253,412
Depreciation and amortization	991,910	710,153
Other operating expenses	888,125	901,557
Total operating expenses	33,318,092	31,434,261
OPERATING LOSS	(4,250,179)	(3,307,249)
NONOPERATING REVENUES AND (EXPENSES)		
District tax revenues	4,164,420	4,045,120
Investment income	236	1,177
Interest expense	(1,540,449)	(1,454,404)
Grants, contributions and other	200,348	248,660
Total nonoperating revenues	2,824,555	2,840,553
INCREASE IN DEFICIT	(1,425,624)	(466,696)
NET POSITION, beginning of the year	(6,509,107)	(6,042,411)
NET POSITION, end of the year	$ (7,934,731)	$ (6,509,107)

See accompanying notes.

PALM DRIVE HEALTH CARE DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS USED IN OPERATING ACTIVITIES		
Cash received from patients and third-parties on behalf of patients	$ 27,672,754	$ 26,675,302
Cash received from operations, other than patient services	1,536,232	1,124,165
Cash payments to suppliers and contractors	(13,737,659)	(13,926,750)
Cash payments to employees and benefit programs	(17,622,060)	(16,415,326)
Net cash used in operating activities	(2,150,733)	(2,542,609)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
District tax revenues	2,080,818	1,981,393
Grants, contributions and other	200,348	248,660
Net cash from noncapital financing activities	2,281,166	2,230,053
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
District tax revenues	2,083,602	2,063,727
Purchase of capital assets	(1,730,660)	(316,941)
Proceeds from loan	455,169	-
Principal payments on loan	(455,169)	-
Principal payments on capital lease obligations	(316,270)	(47,419)
Principal payments on bonds payable	(645,000)	(615,000)
Interest payments on debt borrowings	(1,540,449)	(1,454,404)
Net cash used in capital and related financing activities	(2,148,777)	(370,037)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,888,842	13,546
Interest and dividends received from investments	236	1,177
Net cash from investing activities	1,889,078	14,723
NET CHANGE IN CASH AND CASH EQUIVALENTS	(129,266)	(667,870)
CASH AND CASH EQUIVALENTS, beginning of the year	519,864	1,187,734
CASH AND CASH EQUIVALENTS, end of the year	$ 390,598	$ 519,864

See accompanying notes.

		2013		2012
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES				
Operating loss	$	(4,250,179)	$	(3,307,249)
Adjustments to reconcile operating income to net cash used in operating activities:				
Depreciation		934,386		652,629
Amortization of bond issue costs		57,526		57,524
Provision for uncollectible accounts		2,182,667		2,466,061
Loss on disposal of fixed assets		-		4,568
Changes in operating assets and liabilities:				
Patient accounts receivable		(2,035,629)		(2,842,839)
Property taxes receivable		(58,726)		8,155
Inventories		28,326		2,583
Prepaid expenses and deposits		(9,948)		(10,920)
Related party notes receivable		(614,648)		-
Accounts payable and accrued expenses		2,454,863		512,977
Accrued payroll and related liabilities		167,884		76,996
Refundable advances		(60,414)		9,567
Estimated third party payor settlements		(946,841)		(170,874)
Unearned property taxes		-		(1,787)
Net cash used in operating activities	$	(2,150,733)	$	(2,542,609)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS				
Acquisition of capital assets financed with capital lease obligations	$	1,236,357	$	1,159,058

See accompanying notes.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Palm Drive Health Care District, (the "District") is a public entity organized under Local District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the district to specified terms of office. The District is located in Sebastopol, California and operates a 37-bed acute care hospital. The District provides health care services primarily to individuals who reside in the local geographic area.

Management plan – The District's business plan and operations contemplate the recovery of the District's assets and the satisfaction of its liabilities in the normal course of business. At June 30, 2013, the District had a net deficit of $7,934,731 and negative working capital of $2,279,068. For the year ended June 30, 2013 there was $2,150,733 of cash used in operating activities. Subsequent to year end, the District received $878,325 in debt financing from an affiliate (See Note 13). Management has instituted a plan to cut expenses, including employee costs and supply costs, and grow additional net patient service revenues. Management believes that the new credit received after year end and cash from operations after expense reductions will be sufficient to support operations at least through June 30, 2014. There can be no assurance of management's ability to improve operations or to obtain additional financing and, accordingly, for the District to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting standards – Pursuant to Government Accounting Standard Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and AICPA Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

Proprietary fund accounting – The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and financial statements are prepared using the economic resources measurement focus.

Use of estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimate.

Cash and cash equivalents – Cash and cash equivalents include deposits with financial institutions and investments in highly liquid debt instruments with an original maturity of three months or less. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

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 collectability, 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 by average costs and replacement values which are not in excess of market. The District does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

Assets limited to use – Assets limited to use are recorded at fair value, securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. Assets limited 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 to use consist primarily of short term money market funds and cash held by with local banking and investment institutions.

Capital assets – Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 15 years for equipment and software.

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset. As of June 30, 2013, the District has determined that no capital assets are significantly impaired.

Bond issue costs – Bond issue costs are comprised of deferred financing cost of the issuance of general obligation bonds in 2000 and parcel tax obligations in 2005 and 2010. Amortization of these issuance costs is 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, in accordance with GASB 23. Amortization expense was $57,524 for the year ended June 30, 2013 and 2012.

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 of the District are classified as invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets.

> **Invested in capital assets, net of related debt** – Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> **Restricted net position** – Restricted net position have limits on their use that are externally imposed by creditors (such as through debt covenants), grantors, contributors or by laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
>
> **Unrestricted net assets** – Unrestricted net position are the remainder that do not meet the definition of invested in capital assets, net of related debt or restricted.

Statements of revenues, expenses, and changes in net assets – For purposes of display, transactions deemed by management to be ongoing, major, or central to the provisions of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses. These peripheral activities include district tax revenues, investment income, interest expense, and grants, contributions and other and are reported as nonoperating.

Net patient service revenue and patient accounts receivable – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. The distribution of gross patient accounts receivable by payor at June 30, 2013 and 2012 is as follows:

	2013	2012
Medicare	32%	33%
Medi-Cal	16%	19%
Other third-party payors	35%	33%
Self-pay	17%	15%
	100%	100%

The distribution of gross patient revenue by payor at June 30, 2013 and 2012 is as follows:

	2013	2012
Medicare	50%	48%
Medi-Cal	8%	9%
CMSP	6%	7%
Commercial	22%	24%
Workers' compensation	7%	4%
Other	3%	4%
Self-pay	4%	4%
	100%	100%

Uncollectible accounts – The District provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible.

District tax revenues – The District receives approximately 12% 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. For the year ended June 30, 2013 and 2012, district tax revenues included debt service on general obligation bonds of $421,226 and $405,819, debt service on parcel tax revenue bonds of $1,662,376 and $1,657,908, and an operating levy of $2,080,818 and $1,981,393.

Charity care – The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues. For the year ended June 30, 2013 and 2012, the District provided charity care to 116 patients and 177 patients, respectively. For the year ended June 30, 2013 and 2012, the District also wrote off $1,431,131 and $1,557,810 in policy discounts for self-pay patients, respectively.

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.

Compensated absences – District policies permit most employees to accumulate paid time-off benefits that may be realized as paid time-off or as a cash payment upon termination. Expense and the related liability are recognized as paid time-off benefits when earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at the date of computation. The accrued vacation liability as of June 30, 2013 and 2012 was $856,730 and $790,006, respectively.

Income taxes – The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. However, income from the unrelated business activities of the District may be subject to income taxes.

New accounting pronouncements – The GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* ("GASB No. 61"), which is effective for financial statements for periods beginning after June 15, 2012. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. It also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The impact of the adoption of GASB No. 61 for the fiscal year ended June 30, 2013 is not significant.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"), which is effective for financial statements for periods beginning after December 31, 2011. The objective of GASB 63 is to clarify where deferred outflows and deferred inflows of resources should be reported in the Statement of Net Position. It will provide users with information about how past transactions that are not assets or liabilities will continue to impact a government's financial statements in the future periods. Under these new standards, financial statements will include deferred outflows of resources and deferred inflows of resources ("deferrals"), in addition to assets and liabilities, and will report net position instead of net assets. The effect of the implementation of GASB 63 to the District is limited to the renaming of "Net Assets" to "Net Position".

In April 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), which is effective for financial statements for periods beginning after December 31, 2012. GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The District is reviewing the impact of the adoption.

Reclassification – Certain amounts in the prior year financial statements have been reclassified to conform to the current year financial statement presentation. These reclassifications had no effect on change in deficit or total deficit for the year ended June 30, 2012.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2013 and 2012, the District had deposits in various financial institutions of $591,939 and $710,224, respectively. All of these funds are in the form of cash and cash equivalents, which were collateralized in accordance with the California Government Code ("CGC"), except for $250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure 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.

District investment policies allow investments in U.S. Government securities and state and local agency funds which invest in U.S. Government securities. These investments, when present, 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 assets.

NOTE 3 – 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. Medicare and Medi-Cal settlements are estimated and recorded in the financial statements in the year services are provided. Medicare and Medi-Cal revenue accounts for over 50% of the District's gross patient revenues each year. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquires have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs. Changes in Medicare, Medi-Cal or other programs or the reduction of program funding could have an adverse impact on future net patient service revenues. A summary of the payment arrangements with major third-party payors is as 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, not 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, 2013, cost reports through June 30, 2012 have been tentative or final settled.

Medi-Cal – For traditional Medi-Cal (non-HMO) services, payments for inpatient services rendered to patients are made based on reasonable costs while outpatient payments are based on pre-determined charge screens. The District is paid for services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Department of Health Services within the State of California. At June 30, 2013, cost reports through June 30, 2012 have been tentative or 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.

Net patient service revenues for the year ended June 30, 2013 and 2012 are as follows:

	2013	2012
Daily routine acute and other inpatient services	$ 47,952,024	$ 42,661,524
Outpatient and professional services	45,641,601	42,816,805
Gross patient service revenues	93,593,625	85,478,329
Less contractual adjustments and provision for bad debts	(66,105,643)	(57,536,015)
Net patient service revenues	$ 27,487,982	$ 27,942,314

NOTE 4 – BOARD–DESIGNATED, RESTRICTED FUNDS AND OTHER LONG-TERM INVESTMENTS

As of June 30, 2013 and 2012, District investment balances and average maturities were as follows:

	2013		
		Maturities (in years)	
Type	Fair-Value	Less than 1	1 to 5
Short-term money market funds	$ 2,858,225	$ 2,858,225	$ -
Cash held by county	569,944	569,944	
Total fair-value	$ 3,428,169	$ 3,428,169	$ -

	2012		
		Maturities (in years)	
Type	Fair-Value	Less than 1	1 to 5
Short-term money market funds	$ 4,756,200	$ 4,756,200	$ -
Cash held by county	560,811	560,811	
Total fair-value	$ 5,317,011	$ 5,317,011	$ -

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. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Management believes that there is minimal exposure related to cash held by the County for bond debt service requirements.

NOTE 5 – CAPITAL ASSETS

At June 30, 2013, capital assets were comprised of the following:

	Balance at June 30, 2012	Increases	Decreases, Transfers, and Retirements	Balance at June 30, 2013
Nondepreciable capital assets				
Land and land improvements	$ 5,876,900	$ -	$ -	$ 5,876,900
Construction work in progress	120,777	1,540,750	(1,177,237)	484,290
	5,997,677	1,540,750	(1,177,237)	6,361,190
Depreciable capital assets				
Land improvements	34,493	-	-	34,493
Buildings and improvements	4,120,119	-	192,736	4,312,855
Property under capital leases	1,318,445	1,236,357	-	2,554,802
Equipment and software	6,490,994	189,910	984,501	7,665,405
	11,964,051	1,426,267	1,177,237	14,567,555
Less accumulated depreciation	(6,545,186)	(934,386)	-	(7,479,572)
Capital assets, net	$ 11,416,542	$ 2,032,631	$ -	$ 13,449,173

At June 30, 2012, capital assets were comprised of the following:

	Balance at June 30, 2011	Increases	Decreases, Transfers, and Retirements	Balance at June 30, 2012
Nondepreciable capital assets				
Land and land improvements	$ 5,876,900	$ -	$ -	$ 5,876,900
Construction work in progress	36,076	90,180	(5,479)	120,777
	5,912,976	90,180	(5,479)	5,997,677
Depreciable capital assets				
Land improvements	34,493	-	-	34,493
Buildings and improvements	4,106,835	13,284	-	4,120,119
Property under capital leases	159,387	1,159,058	-	1,318,445
Equipment and software	6,335,992	213,477	(58,475)	6,490,994
	10,636,707	1,385,819	(58,475)	11,964,051
Less accumulated depreciation	(5,951,943)	(652,629)	59,386	(6,545,186)
Capital assets, net	$ 10,597,740	$ 823,370	$ (4,568)	$ 11,416,542

Total depreciation expense related to capital leases totaled $350,719 and $55,314 for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, accumulated depreciation related to capital leases was $439,736 and $89,017, respectively.

The District expects to obtain additional property under capital leases in the next fiscal year of approximately $600,000.

NOTE 6 – MEDICAL MALPRACTICE COVERAGE AND CLAIMS

The District has joined together with other providers of health care services to form Beta Healthcare Group ("Beta"), a public entity risk pool (the "Pool") currently operating as a common risk management and insurance program for its members. The District purchases medical malpractice insurance from the Pool under a claims-made policy with limits of $10 million per occurrence, $10 million in the annual aggregate, and with a self-insured retention level of $5,000 per claim. The Pool's governing agreements specify that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts.

The District also purchase workers' compensation insurance from Alpha Fund, a California's premier self-insured workers' compensation pool, dedicated to public and non-profit health care organization. The District purchases workers' compensation insurance under a claims-made policy with limits of $1 million per occurrence and $1 million in the annual aggregate.

Based upon the District's claims experiences, the District has estimated that no accrual is necessary as of June 30, 2013 and 2012, for accrued malpractice and workers' compensation costs.

NOTE 7 – BONDS PAYABLE

At June 30, 2013 and 2012 bonds payable were as follows:

	2013	2012
Health Care District Insured General Obligation Bonds, Series 2000; interest rates ranging from 4.7% to 8.0%; principal due each August 1; interest due semi-annually each February 1 and August 1; final due in 2030; repayments through collection of County property taxes	$ 4,830,000	$ 4,980,000
Parcel Tax Revenue Bonds, Series 2005; interest ranging from 3.0% to 4.6%; principal due each April 1; interest due semi-annually each April 1, and October; final due in 2024; secured by parcel property taxes	7,640,000	7,940,000
Parcel Tax COPs, Series 2010; interest ranging from 7.0% to 7.5%; principal due each April 1; interest due semi-annually each April 1, and October; final due in 2035; secured by parcel property taxes	10,470,000	10,665,000
	22,940,000	23,585,000
Less current maturities of bonds payable	(675,000)	(645,000)
	$ 22,265,000	$ 22,940,000

Debt service requirements for bonds payable are as follows at June 30, 2013:

	General Obligation Bonds		Revenue Bonds and COPs	
Year Ending June 30,	Principal	Interest	Principal	Interest
2014	$ 155,000	$ 249,091	$ 520,000	$ 1,122,522
2015	165,000	241,224	550,000	1,094,516
2016	175,000	232,703	575,000	1,064,689
2017	185,000	223,509	610,000	1,033,500
2018	200,000	213,388	640,000	1,000,134
2019-2023	1,180,000	887,733	3,780,000	4,421,784
2024-2028	1,580,000	509,333	5,010,000	3,170,474
2029-2033	1,190,000	72,045	4,670,000	1,482,694
2034-2038	-	-	1,755,000	166,969
	$ 4,830,000	$ 2,629,026	$ 18,110,000	$ 14,557,282

The following tables summarize the District's bonds long-term debt transactions for the years ended June 30, 2013 and 2012:

	2013				
	Balance June 30, 2012	Increases During Year	Decreases During Year	Balance June 30, 2013	Current Portion
Bonds payable					
Series 2000 General Obligation Bonds	$ 4,980,000	$ -	$ (150,000)	$ 4,830,000	$ 155,000
Series 2005 Parcel Tax Revenue Bonds	7,940,000	-	(300,000)	7,640,000	310,000
Series 2010 Parcel Tax COPs	10,665,000	-	(195,000)	10,470,000	210,000
Notes payable	-	455,169	(455,169)	-	-
Capital lease obligations	1,210,751	1,236,357	(316,270)	2,130,838	1,129,117
	$ 24,795,751	$ 1,691,526	$ (1,416,439)	$ 25,070,838	$ 1,804,117

	2012				
	Balance June 30, 2011	Increases During Year	Decreases During Year	Balance June 30, 2012	Current Portion
Bonds payable					
Series 2000 General Obligation Bonds	$ 5,120,000	$ -	$ (140,000)	$ 4,980,000	$ 150,000
Series 2005 Parcel Tax Revenue Bonds	8,230,000	-	(290,000)	7,940,000	300,000
Series 2010 Parcel Tax COPs	10,850,000	-	(185,000)	10,665,000	195,000
Capital lease obligations	99,112	1,159,058	(47,419)	1,210,751	199,798
	$ 24,299,112	$ 1,159,058	$ (662,419)	$ 24,795,751	$ 844,798

NOTE 8 – CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding as of June 30, 2013 and 2012 are as follows:

Description	Maturity	Interest Rates	Original Issue	June 30, 2013	June 30, 2012
Capital leases - equipment net of interest	July 2014 - July 2018	4.15% - 8.30%	$ 3,314,670	$ 2,130,838	$ 1,210,751
Less current portion				(1,129,117)	(199,798)
				$ 1,001,721	$ 1,010,953

Debt service requirements for capital lease obligations are as follows:

Year Ending June 30,	
2014	$ 1,234,381
2015	454,183
2016	228,423
2017	206,145
2018	182,925
2019-2023	12,336
Less interest	(187,555)
	2,130,838
Less current portion	(1,129,117)
	$ 1,001,721

NOTE 9 – RELATED PARTY TRANSACTIONS

Palm Drive Health Care Foundation – The Palm Drive Health Care Foundation, formerly the West County Health Care Foundation (the "Foundation"), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501 (c)(3) to focus on activities which contribute to the health status of residents in Sebastopol and western Sonoma County. The Foundation periodically accepts donations and raises funds to support the District and makes distributions to the District in amounts and for purposes determined by the Foundation's Board of Trustees and in accordance with any specific donor restrictions. The Foundation is not considered a component unit of the District because management believes the resources of the Foundation are not significant to the District.

Contracted physician – On September 4, 2012, the District executed a physician recruitment agreement (the "Agreement") with a contracted physician (the "Physician"). In conjunction with the Agreement, the District provides a practice loan not to exceed $1,100,000 to the Physician for the two years of assistance period. The loan advances are based on the practice expenses plus the guaranteed monthly payment of $45,833, less the practice's revenue. The loan bears an annual interest rate of prime rate plus 2%. As of June 30, 2013, the interest rate is 5.25%. The loan is payable in 60 equal monthly installments starting on September 4, 2012. The District forgives the interest on each month when the physician complies with all terms of the agreement during the assistance period. Subsequent to the assistance period, the District will forgive the principal and interest due each month when the physician complies with all terms of the agreement. As of June 30, 2013, the balance of the note receivable is $456,172.

Affiliate – On December 29, 2011, the District entered into a management services and affiliation agreement with a California nonprofit corporation (the "affiliate") to receive a) management and administrative services, b) financial planning and management, and c) physician support and development for $15,000 per month. The District pays for costs for other associated projects. The agreement terminated on December 31, 2012 and was extended one year. During the year ended June 30, 2013, the affiliate provided advances to the District of $455,169 at an interest rate of 3.25%. These advances including interest were fully paid in June 2013 in the amount of $458,031.

Lessee – On February 1, 2013, a California nonprofit public benefit corporation (the "lessee") entered into lease agreements with the District to sublease its clinic and lease its equipment. The clinic is leased for $1,187 per month plus the lessee's share of operating expenses until July 31, 2016. The equipment is leased for $813 per month for 2 years and month-to-month for up to six months subsequent to the initial term. Rental income including both clinic and equipment for the year ended June 30, 2013 totaled $58,286. The rental income is included in the other nonoperating revenues and expenses in the statement of revenues, expenses, and changes in net position for the year ended June 30, 2013. On the same day, the District entered into a funding agreement to assist the lessee with the clinic's operations for a period of time. The District pays the lessee $22,000 per month at the beginning of February 1, 2013 until January 1, 2015. These payments to the lessee by the District will be repaid only upon dissolution of the lessee and the distribution of its assets. These payments are included in the other nonoperating expenses in the statement of revenues, expenses, and changes in net position for the year ended June 30, 2013. Moreover, the District executed a $160,000 promissory note with the lessee on February 1, 2013. The note bears an annual interest rate of 6%. The note will be payable beginning August 2015 and will be repaid from the future profits of the clinic. Interest income is not accrued since the accrued interest will be forgiven on each anniversary of note when the lessee complies with the terms of the Funding Agreement. As of June 30, 2013, the balance of the note is $160,000.

Guaranteed annual payments to related parties are as follows:

Year Ending June 30,		
2014	$	903,996
2015		113,666
	$	1,017,662

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation – The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. While the ultimate liabilities cannot now be determined due to uncertainties that exist, management believes the ultimate resolution of these lawsuits and claims will not have a material effect on the District's financial position.

Operating leases – The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the year ended June 30, 2013 and 2012 was $341,752 and $395,377. Future minimum lease payments for the succeeding years under operating leases at June 30, 2013 that have initial or remaining lease terms in excess of one year are not considered material.

Regulatory environment – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The District is subject to routine surveys and reviews by federal, state, and local regulatory authorities. The District has also received inquiries from health care regulatory authorities regarding its compliance with laws and regulations. Although the District's management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and on-going surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests 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. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 11 – HEALTH CARE REFORM

In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law may result in changes across the health care industry. The primary goal of this comprehensive legislation is to extend health care coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designated to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. The District is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations and or interpretive guidance. However, the District expects that several provisions of the Health Care Reform Legislation will have a material effect on its business.

NOTE 12 – EMPLOYEE BENEFIT PLANS

The District maintains a 401(a) defined contribution retirement plan (the "401(a) Plan") on a calendar year-end that covers all employees by a collective bargaining agreement and all non-benefited employees who are 21 years of age and have completed one year of credited service. The Plan provides for contributions up to $40,000 or 100% of eligible participants' annual compensation, if less. The District's contribution is discretionary. Eligible employer contributions are 100% vested.

The District maintains a 457(b) defined contribution retirement plan (the "457(b) Plan") on a calendar year-end that covers all employees not participating in the 401(a) Plan who are 21 years of age and have completed three months of employment. The Plan provides for contributions up to $15,000. Under the Plan, the District matches 100% of employee contributions up to the 3% of an employee's compensation. The District's contribution is discretionary. Eligible employer contributions are 100% vested.

For the years ended June 30, 2013 and 2012, total employer contributions for both retirement plans were $187,487 and $202,085, respectively.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of net position date but before financial statements are issued or are available to be issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the statement of net position date and before financial statements are available to be issued.

The District has evaluated subsequent events through October 25, 2013, which is the date the financial statements were available to be issued.

In July 2013, the affiliate provided an advance of $500,000 to the District at an interest rate of 4.25% until the amount is repaid to assist with the District's operating needs, which was repaid October 2013. In September 2013, the affiliate provided an additional advance of $378,325 to the District at an interest rate of 4.25% until the amount is repaid, also to assist with the District's operating needs.

SUPPLEMENTARY INFORMATION

CHARITY CARE AND COMMUNITY BENEFIT EXPENSE

The District maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care and community service policies, and the estimated cost of those services and supplies, and statistics quantifying the level of charity care as a percentage of expenses of the District as a whole. The following is a summary of the District's charity care and community benefit expense in terms of services to the poor and benefits to the broader community at June 30, 2013 and 2012:

	2013	2012
Benefits for the poor:		
Unpaid Medi-Cal and County indigent charges and charity care	$ 4,204,446	$ 4,655,985
Total quantifiable benefits for the poor	4,204,446	4,655,985
Benefits for the broader community:		
Unpaid Medicare program charges	12,489,884	12,358,213
Total quantifiable benefits for the broader community	12,489,884	12,358,213
Total quantifiable community benefits	$ 16,694,330	$ 17,014,198