# CAMBRIA COMMUNITY HEALTHCARE DISTRICT

# REPORT ON AUDIT OF FINANCIAL STATEMENTS

**June 30, 2018**

CAMBRIA COMMUNITY HEALTHCARE DISTRICT

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June 30, 2018

CliftonLarsonAllen LLP
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# INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cambria Community Healthcare District
Cambria, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the Cambria Community Healthcare District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

## INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cambria Community Healthcare District
Cambria, California

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2018 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

*Changes in Accounting Principle*

During fiscal year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of Statement No. 75, the District reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

### Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) on pages iv-ix and the required supplementary information on pages 30 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**INDEPENDENT AUDITORS' REPORT**

Board of Trustees
Cambria Community Healthcare District
Cambria, California

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
April 9, 2019

# BOARD OF TRUSTEES AND ADMINISTRATION

# CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## BOARD OF TRUSTEES AND ADMINISTRATION
**June 30, 2018**

| Trustee | Position | Term Expires |
|---|---|---|
| Jerry Wood | President | December 2018 |
| Barbara Bronson Gray | Vice President | December 2020 |
| Shirley Bianchi | Secretary | December 2020 |
| Robert Putney | Trustee | December 2018 |
| Mary Anne Meyer | Trustee | December 2018 |
| | | |
| Robert Sayers, Jr. | Administrator | Retired |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## June 30, 2018

This discussion and analysis of the Cambria Community Healthcare District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### Introduction and Background

The Cambria Community Healthcare District (the District), was organized in 1947, under the authority of section 3200, et. seq., of the Health and Safety Code of the State of California. The District formation was approved by the local voting constituency and was authorized by the San Luis Obispo County Board of Supervisors with the objective to attract physicians and dentists to locate their practice to the community.

Medical offices were leased by the District from a private party and in turn were rented (at a nominal amount) to a physician. The District took over operation of the ambulance services from the Cambria Chamber of Commerce, using volunteers via a telephone call list for emergency response. The ambulance was located in a shed behind the old Bank of America building.

The District built its own "clinic" to provide medical offices that could be leased to a physician at a nominal rate. This building was completed on land donated by the Soto Family at its present location on Main Street. The District also began to purchase medical equipment for the physicians use.

The District is a public, tax and fee supported special district in San Luis Obispo County, California. The District provides advance support ambulance service for the area, which includes the communities of Cambria, Harmony, San Simeon, and outlying areas north to the Monterey County line. Under an agreement with the County of Monterey, the District also provides ambulance service in the Monterey County Coast zone.

In addition to ambulance service, the District owns a professional medical building, which is leased to a healthcare organization. The District's mission is to improve the health of district residents by providing Emergency Services, Enhancing Access to Care and promoting wellness. The District is governed by a five-member Board of Trustees. The Administrator manages the day-to-day operations of the District in accordance with the policies and procedures established by the Board of Trustees. The Board of Trustees meets each month. Meetings are publicly noticed and citizens are encouraged to attend.

### Financial Highlights

- Total assets decreased as of June 30, 2018 by $52,488 compared to 2017 and consisted of cash, accounts receivable and capital assets.
- During the year, the District recorded a restatement to net position of $1,516,062 in connection with the adoption and implementation *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

- Total liabilities increased as, of June 30, 2018 by $2,073,445 compared to 2017 and consisted of accounts payable, accrued expenses and long-term obligations for pension and OPEB.
- The District ended the year with a net deficit of $4,116,989 compared to the restated net deficit at June 30, 2018 of $3,459,978.
- Operating revenues were $850,413 for the year ended June 30, 2018 compared to $807,145 for 2017.
- Current year assessments, property taxes and other non-operating revenues were $1,049,567 compared to $1,039,852 for the year ended June 30, 2017.
- Operating expenses were $2,556,991 for the current year compared to operating expenses of $2,024,714 for the year ended June 30, 2017.
- For the year ended June 30, 2018, the District recorded a loss from operations of $1,706,578 compared to a loss from operations of $1,217,569 in 2017. Total change in net position was a decrease of $657,011 compared to a decrease in net position of $177,717 for the year ended June 30, 2017.

## Financial Management and Control

The District is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with US generally accepted accounting principles (US GAAP).

CliftonLarsonAllen LLP, Certified Public Accountants, performs an independent audit examination of the financial statements in accordance with generally accepted auditing standards (GAAS).

## Basic Financial Statements

Financial statements are prepared in conformity with US GAAP and include amounts based upon reliable estimates and judgments. The financial statements include the Statement of Net Position; Statement of Revenues, Expenses and Change in Net Position; and the Statement of Cash Flows. The statements are accompanied by footnotes to clarify unique accounting policies and other financial information and required supplementary information. The assets, liabilities, revenues, and expenses are reported on a full-accrual basis.

The **Statement of Net Position** presents information on all assets and deferred outflows and liabilities and deferred inflows, with the difference representing net position. Assets and Liabilities are classified as current or non-current. Changes within the year in total net position as presented on the Statement of Net Position are based on the activity presented on the Statement of Revenues, Expenses and Change in Net Position.

The **Statement of Revenues, Expenses and Change in Net Position** presents information showing total revenues versus total expenses and how net position changed during the fiscal year. All revenues earned and expenses incurred during the year are required to be classified as either "operating" or "non-operating." For the current year, all expenses incurred are considered to be operating. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., the expense associated with changes in claim liability involving cash transactions beyond the date of the financial statements).

The **Statement of Cash Flows** presents the changes in the cash and cash equivalents during the fiscal year. This statement is prepared using the direct method of cash flow. The statement breaks the sources and uses of cash and cash equivalents into three categories:

- Operating activities
- Financing activities
- Investing activities

The routine activities appear in the operating activities, while investment and non-operating activities comprise the investing activities. Financing activities represent property taxes and special assessments as well as loan activity and purchases of capital assets.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of operations and significant accounting policies as well as clarify unique financial information.

## Condensed Statement of Net Position

| | 2018 | 2017 | Change |
|---|---|---|---|
| Assets: | | | |
| Current and other assets | $ 520,427 | $ 572,637 | $ (52,210) |
| Capital assets - non current | 188,245 | 188,523 | (278) |
| Total Assets | 708,672 | 761,160 | (52,488) |
| Deferred Outflows of Resources: | | | |
| Deferred amount pension obligation | 493,864 | 559,917 | (66,053) |
| Total Deferred Outflows | 493,864 | 559,917 | (66,053) |
| Liabilities: | | | |
| Current liabilities | 98,508 | 60,817 | 37,691 |
| Non-current liabilities | 5,032,840 | 2,997,086 | 2,035,754 |
| Total Liabilities | 5,131,348 | 3,057,903 | 2,073,445 |
| Deferred Inflows of Resources: | | | |
| Deferred amount pension obligation | 188,177 | 207,090 | (18,913) |
| Total Deferred Inflows | 188,177 | 207,090 | (18,913) |
| Net Position: | | | |
| Net investment in capital assets | 61,976 | 34,972 | 27,004 |
| Unrestricted | (4,178,965) | (1,978,888) | (2,200,077) |
| Total Net Position | $ (4,116,989) | $ (1,943,916) | $ (2,173,073) |

Total assets decreased by $52,488 primarily due to a decrease in cash and increase in receivables. Total liabilities increased $2,073,445 after prior year restatement, primarily due to an increase in accrued liabilities for pension and OPEB obligations.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of the District were exceeded by liabilities and deferred inflows in the amount of $4,116,989. See note 9 to the accompanying financial statements for a discussion of management's plan to address the District's net deficit.

### Condensed Statements of Revenues, Expenses and Change in Net Position

| | 2018 | 2017 | Change |
|---|---|---|---|
| Operating revenues | $ 850,413 | $ 807,145 | $ 43,268 |
| Non-operating revenues, net | 1,049,567 | 1,039,852 | 9,715 |
| Total Revenues | 1,899,980 | 1,846,997 | 52,983 |
| Total Operating Expenses | 2,556,991 | 2,024,714 | 532,277 |
| Change in Net Position | (657,011) | (177,717) | (479,294) |
| Net Position - Beginning of Year | (1,943,916) | (1,766,199) | (177,717) |
| Restatement due to change in accounting principle | (1,516,062) | - | (1,516,062) |
| Net Position - Beginning of Year After Restatement | (3,459,978) | (1,766,199) | (1,693,779) |
| Net Position - End of Year | $ (4,116,989) | $ (1,943,916) | $ (2,173,073) |

As of June 30, 2018, the District's total operating expenses exceeded its total revenues, resulting in a decrease in net position of $657,011. Revenues from operating and non-operating sources increased by $52,983 and operating expenses increased $532,277 when compared to the prior year.

**Operating Revenues:**

Operating revenues for the District increased $43,268, primarily due to increased revenue from ambulance charges.

**Non-operating Revenues:**

Non-operating revenues consist primarily of property taxes and special assessments from the County of San Luis Obispo. In addition, the District records rental income and other income netted with interest expenses from non-operating sources.

**Operating Expenses:**

Operating expenses consist of costs incurred in connection with the ambulance operations of the District, primarily consisting of payroll and benefit related expenses. The District also incurs general and administrative expenses related to the operations of the District Offices. The increase in current year expenses is primarily attributable to an increase in OPEB expense in connection with the reporting requirements of GASB 75. In 2017, the District recorded a favorable adjustment to pension expense in the current year under the reporting requirements of GASB 68 and the effect of the deferred inflows and outflows on the current year proportionate share of pension expense. In addition, the District recognized an increase in bad debt expense offset by decreases in compensation and medical supplies and equipment.

**Description of Facts or Conditions that are expected to have a Significant Effect on Financial Position or Results of Operations**

Management and the Board is unaware of any facts or conditions which could have a significant impact on the District's current financial position or foreseeable operating results other than is described below.

During fiscal year ended June 30, 2018, the District recorded operating expenses in excess of operating revenues, property tax, and special assessment revenues which resulted in a net operating deficit for the year. In an effort to reduce operating costs and eliminate future operating deficits, management and the Board reviewed ambulance operations to identify possible cost reductions and savings.

Effective July of 2018, the District implemented a new operating schedule of ambulance services. The new operating schedule was developed in an effort to reduce the cost of providing ambulance to the District and better align the District's revenues with the District's expenses. Prior to July 2018 the District operated two fully staffed ambulances on a 24/7 basis. The new operating schedule for fiscal year 2018/2019 now includes providing one fully staffed ambulance on a 24/7 basis and a second fully staffed ambulance on a 12/7 basis. As a result, the District new operating schedule provides two fully staffed ambulance from 8:00 AM to 8:00 PM on a 24/7 basis and one full staffed ambulance from 8:00 PM to 8:00 AM on a 24/7 basis. The District implemented this new operating schedule after a review and analysis of the historical experience of ambulance calls during each hour of the day. The analysis supported the reduction of one fully staffed ambulance during the time period of 8:00 PM to 8:00 AM each day.

Additionally, in November of 2018, three new Trustees were elected which replaced three incumbents. The new District Board has developed a new operating budget that includes both expense reductions and cost controls.

As result of the implementation of the new ambulance operating schedule along with the new Board composition and new operating budget development, expense reductions and cost controls, the District believes that the negative cash flow experienced by the District in the fiscal year ended June 30, 2018 will be mitigated, if not eliminated, during the fiscal year ended June 30, 2019.

**Contacting the District Financial Management**

*The financial report contained herein is designed to provide a general overview of the finances, activities and operations of the District. To obtain additional information, please feel free to contact the Cambria Community Healthcare District at (805) 927-8304.*

# FINANCIAL SECTION

# CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## STATEMENT OF NET POSITION
## June 30, 2018

| | | |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ | 319,062 |
| Accounts receivable, net of allowance of $178,569 | | 201,365 |
| Total current assets | | 520,427 |
| **NON-CURRENT ASSETS** | | |
| Capital assets: | | |
| Nondepreciable | | 5,063 |
| Depreciable- net of accumulated depreciation | | 183,182 |
| Total non-current assets | | 188,245 |
| Total assets | | 708,672 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred outflows- pensions | | 439,294 |
| Deferred outflows- other postemployment benefits | | 54,570 |
| Total deferred outflows of resources | | 493,864 |
| **CURRENT LIABILITIES** | | |
| Accounts payable | | 64,357 |
| Accrued payroll | | 5,982 |
| Current portion- long-term debt | | 28,169 |
| Total current liabilities | | 98,508 |
| **NON-CURRENT LIABILITIES** | | |
| Long-term liabilities | | |
| Compensated absences | | 5,941 |
| Long-term debt | | 98,100 |
| OPEB liability | | 3,364,611 |
| Net pension liability | | 1,564,188 |
| Total non-current liabilities | | 5,032,840 |
| Total liabilities | | 5,131,348 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred inflows- pensions | | 188,177 |
| Total deferred inflows of resources | | 188,177 |
| **NET DEFICIT** | | |
| Net investment in capital assets, net of associated debt | | 61,976 |
| Unrestricted | | (4,178,965) |
| **Total Net Deficit** | $ | (4,116,989) |

See independent auditors' report and accompanying notes to the financial statements.

## CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
### For the Fiscal Year Ended June 30, 2018

| | |
|---|---|
| **OPERATING REVENUES** | |
| Ambulance charges | $ 720,027 |
| Other operating revenues | 130,386 |
| Total operating revenues | 850,413 |
| **OPERATING EXPENSES** | |
| Salaries and wages | 905,129 |
| Payroll benefits | 975,916 |
| Workers' compensation insurance | 88,341 |
| Professional services | 164,403 |
| Contract services | 48,629 |
| Depreciation | 49,405 |
| Medical supplies and equipment | 30,809 |
| Bad debt expense | 116,161 |
| Repairs and maintenance | 38,506 |
| Insurance | 26,692 |
| Fuel and oil | 15,160 |
| Payroll taxes | 21,301 |
| Utilities | 21,854 |
| Licenses and permits | 15,837 |
| Office and computer supplies | 11,742 |
| Uniform expense | 4,788 |
| Education and travel | 6,940 |
| Miscellaneous expense | 9,197 |
| Trustee compensation | 6,091 |
| Training | 90 |
| Total operating expenses | 2,556,991 |
| **Operating Loss** | (1,706,578) |
| **NON OPERATING REVENUES (EXPENSES):** | |
| Property taxes | 515,192 |
| Special assessment | 502,436 |
| Rental income | 35,510 |
| Interest income | 1,079 |
| Interest expense | (4,650) |
| Total non operating revenues (expenses) | 1,049,567 |
| Change in net position | (657,011) |
| **Net Deficit Beginning of Year Before Restatement** | (1,943,916) |
| Restatement due to change in accounting principle | (1,516,062) |
| **Net Deficit Beginning of Year After Restatement** | (3,459,978) |
| **Net Deficit End of Year** | $ (4,116,989) |

See independent auditors' report and accompanying notes to the financial statements.

# CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## STATEMENT OF CASH FLOWS
## For the Fiscal Year Ended June 30, 2018

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from customer and users | $ 791,991 |
| Payments to employees | (1,292,740) |
| Payments to vendors and suppliers | (583,041) |
| Net cash used by operating activities | (1,083,790) |
| **CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES** | |
| Property taxes received | 515,192 |
| Special assessments received | 502,436 |
| Net cash provided by non-capital financing activities | 1,017,628 |
| **CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES** | |
| Payments on long-term debt | (31,932) |
| Purchases of capital assets | (49,127) |
| Net cash used by capital and financing activities | (81,059) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest income received | 1,079 |
| Rental income received | 35,510 |
| Net cash provided by investing activities | 36,589 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (110,632) |
| Cash and Cash Equivalents - Beginning of Year | 429,694 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 319,062 |
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | |
| Net operating loss | $ (1,706,578) |
| Adjustments to reconcile operating loss: | |
| Depreciation | 49,405 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| (Increase) Decrease in assets and deferred outflows: | |
| Accounts receivable | (58,422) |
| Deferred outflows | 66,053 |
| Increase(Decrease) in liabilities and deferred inflows: | |
| Accounts payable | 43,500 |
| Accrued payroll | (6,706) |
| Compensated absences | (1,420) |
| OPEB liability | 429,194 |
| Pension liability | 120,097 |
| Deferred inflows | (18,913) |
| Total adjustments | 622,788 |
| Net cash used by operating activities | $ (1,083,790) |

See independent auditors' report and accompanying notes to the financial statements.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and Operations of the Reporting Entity

The Cambria Community Healthcare District (the District), was organized in 1947, under the authority of section 3200, et. seq., of the Health and Safety Code of the State of California. The District is a public, tax and fee supported special district in San Luis Obispo, California. The District provides advance support ambulance service for the area, which includes the communities of Cambria, Harmony, San Simeon, and outlying areas north to the Monterey County line. Under an agreement with the County of Monterey, the District also provides ambulance service in the Monterey County Coast zone.

In addition to ambulance service, the District owns a professional medical building, which is leased to healthcare organizations. The District's mission is to improve the health of district residents by providing Emergency Services, Enhancing Access to Care and promoting wellness. The District is governed by a five-member Board of Trustees. The Administrator manages the day-to-day operations of the District in accordance with the policies and procedures established by the Board of Trustees. The Board of Trustees meets each month. Meetings are publicly noticed and citizens are encouraged to attend.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

An annual budget is approved by the Board of Trustees.

### Basis of Preparation

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's enterprise fund.

### Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments, and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligible requirements have been satisfied; and revenue from investments is recognized when earned.

### Fund Accounting

The accounts of The District are organized on the basis of an enterprise fund, the operations of which are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenditures in addition to deferred outflows and inflows of resources. District resources are allocated to and accounted for based upon the purpose for which they are spent and the means by which spending activities are controlled. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

***Net Investment In Capital Assets*** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

***Restricted Net Position*** - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

***Unrestricted Net Position*** - This category represents net position of the District, not restricted for any project or other purpose.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position. The District considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, 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 expenses during the reported period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents with original maturities of three months or less.

### Receivables

Receivables are generally recorded when the amount is earned and can be estimated. Receivables include amounts due from recipients of ambulance services and certain tax levies. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for doubtful accounts. The District also provides for Medicare and Medi-Cal contractual allowances.

### Capital Assets

Acquisitions of property, plant and equipment are recorded at cost and are depreciated on a straight line basis over their estimated useful lives ranging from five to forty years. Donated capital assets are recorded at their acquisition value on the date received. The District maintains a capitalization threshold of $500. Amounts under the threshold are expensed to repairs and maintenance.

### Property Taxes and Assessments

The Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Property Valuations*

Property valuations are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIIIA of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

### *Tax Collections*

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

### *Tax Levy Apportionments*

Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County Auditor-Controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979. There has been no change to prevailing legislation as of June 30, 2018.

### *Property Tax Administration Fees*

The State of California FY 90-91 Budget Act, authorized Counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

***Tax Levies*** - are limited to 1% of full value which results in a tax rate of $1.00 per $100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Tax Levy Dates*** - are attached annually on January 1preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

**Special Assessment**

The District passed a special assessment on November 5, 1985, of $4.00 flat rate per unimproved parcel and $7.00 flat rate for improved parcel per year on all real property (except for federal, state or local government agencies) within the boundaries of the District for periodic and equipment replacement. On November 8, 1994, the voters approved an increase to the special assessment, raising the unimproved parcel fee to $7.00 and improved parcel fee to $20.00 to upgrade general operations. On November 7, 2006, the voters approved another increase to the special assessment, raising the unimproved parcel fee to $25 and improved parcel fee to $85 to improve paramedic staffing and upgrade general operations, annually adjusted by the change in the Consumer Price Index for the Greater Los Angeles Area.

**Annual Appropriations Limit**

The District is exempt from the annual appropriations limit required by Senate Bill 813 (Chapter 1025, Statutes of 1987), in accordance with California Constitution Article XIII B. This exemption is based on the voters of the District approving an additional assessment subsequent to the passage of Proposition 13.

**Deferred Outflows and Inflow of Resources**

*Deferred Outflows- Pensions* – The deferred outflows of resources related to pensions resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans, the effect of changes in proportion, and the difference between expected and actual experience. The deferred outflows-pensions will be deferred and amortized as detailed in Note 6 to the financial statements.

*Deferred Inflows- Pensions* – Deferred inflows of resources represent an acquisition of net assets by the District that is applicable to a future period. The deferred inflows of resources related to pensions results from the difference between the estimated and actual return on pension plan investments, the effect of the changes in proportion and changes in assumptions, and the difference between expected and actual experience. These amounts are deferred and amortized as detailed in Note 6 to the financial statements.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Deferred Outflows- Other Postemployment Benefits Other than Pensions (OPEB)* – The District also recorded deferred outflows of resources related to its (OPEB) obligation that resulted from District contributions to the plan subsequent to the measurement date of the actuarial valuations for the healthcare plan and to differences between expected and actual plan experience.

### Postemployment Benefits Other than Pensions (OPEB)

The District participates in an Agent Multiple-Employer defined benefit postemployment healthcare plan. During 2018, the District adopted new accounting guidance *GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions* (GASB No. 75). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense information about the fiduciary net position of the District Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

### Net Pension Liability

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) miscellaneous and safety plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

### New Accounting Pronouncements

***Governmental Accounting Standards Board Statement No. 83***

In November 2016, the GASB issued Statement No. 83 ***Certain Asset Retirement Obligations***. This statement addresses accounting and financial reporting for certain asset retirement obligations when a legally enforceable liability is associated with the retirement of a tangible capital asset. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows of resources. The statement is effective for the fiscal year 2018-19. The District does not expect this pronouncement to have a significant impact.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Governmental Accounting Standards Board Statement No. 84***

In January 2017, the GASB issued Statement No. 84 ***Fiduciary Activities***. The objective of the statement is to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the fiscal year 2019-20. The District does not expect this pronouncement to have a significant impact.

***Governmental Accounting Standards Board Statement No. 87***

In June 2017, the GASB issued Statement No. 87 ***Leases***. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement is effective for the fiscal year 2020-21. The District is evaluating the impact of this pronouncement,

***Governmental Accounting Standards Board Statement No. 88***

In June 2017, the GASB issued Statement No. 88 ***Certain Disclosures Related to Debt, including Direct Borrowings and Direct Replacements***. The statement defines debt for purposes of disclosure in the notes to the financial statements. The statement requires additional disclosures related to debt obligations, including direct borrowings and direct placements. Amounts of unused lines of credit, assets pledged as collateral for debt and terms specified in debt agreements related to significant 1) events or default with finance-related consequences; 2) termination events with finance-related consequences and ) subjective acceleration clauses are also required to be disclosed. The statement is effective for the fiscal year 2018-19. The District does not expect this pronouncement to have a significant impact.

***Governmental Accounting Standards Board Statement No. 89***

In June 2018, the GASB issued Statement No. 89 ***Accounting for Interest Cost Incurred before the End of a Construction Period.*** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement is effective for the fiscal year 2020-21. The District does not expect this pronouncement to have a significant impact.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Governmental Accounting Standards Board Statement No. 90***

In August 2018, the GASB issued Statement No. 90 ***Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61.*** The statement modifies previous guidance for reporting a majority equity interest in a legally separate organization and provides guidance for reporting a component unit if 100 percent equity interest is acquired in that component unit. The statement is effective for the fiscal year 2019-20. The District does not expect this pronouncement to have a significant impact.

### Change in Accounting Principles

The beginning net position of the financial statements has been decreased by $1,516,062 to recognize the beginning balance of the net OPEB liability of $2,971,825 resulting from implementation of GASB Statement No. 75, resulting in this cumulative effect of change in accounting principle.

## NOTE 2: DEPOSITS AND INVESTMENTS

On June 30, 2018, the District had the following cash and investments on hand:

| | | |
|---|---|---|
| Cash in bank accounts | $ | 199,752 |
| Local Agency Investment Fund | | 119,310 |
| Total cash and investments | $ | 319,062 |

Cash and investments listed above, are presented on the accompanying basic financial statements as cash and cash equivalents of $319,062.

### Investments Authorized by the California Government Code and the District's Investment Policy

The table shown herein identifies the investment types that are authorized by the District in accordance with the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate, credit risk and concentration of credit risk.

## NOTE 2: DEPOSITS AND INVESTMENTS

| Authorized Maximum Investment type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds | 5 years | None | None |
| U.S Treasury Obligations | 5 years | None | None |
| U.S Agency Securities | 5 years | None | None |
| Banker's Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base value | None |
| Medium-Term Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Fund | N/A | None | None |
| California Local Agency Investments Fund (LAIF) | N/A | None | None |
| JPA Pools (other investment pools) | N/A | None | None |

### Investment Valuation

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that the GASB requires or permits in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2018, the District had investments in the Local Agency Investment Fund; however, that external pool is not subject to fair value measurements under the fair value hierarchy as described above.

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 as of June 30, 2018 is

## NOTE 2: DEPOSITS AND INVESTMENTS

federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-leader) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Local Agency Investment Fund).

### Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The fund currently yields approximately 1.854%. LAIF is currently unrated and has an average life of 194 days. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not subject to categorization to indicate the level of custodial credit risk assumed by the District at year end.

### 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 that the District 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 portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide cash flow requirements and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is not presented as LAIF is not subject to this type of categorization.

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is currently not rated.

## NOTE 2: DEPOSITS AND INVESTMENTS

### Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

## NOTE 3: CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2018, was as follows:

| | Balance at July 1, 2017 | Additions | Deletions/ Transfers | Balance at June 30, 2018 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land | $ 5,063 | $ - | $ - | $ 5,063 |
| Total non depreciable assets | 5,063 | - | - | 5,063 |
| Depreciable assets | | | | |
| Buildings and improvements | 75,478 | 49,127 | - | 124,605 |
| Ambulance and vehicles | 439,122 | - | - | 439,122 |
| Furniture and fixtures | 20,378 | - | - | 20,378 |
| Equipment | 294,023 | - | - | 294,023 |
| Total Depreciable capital assets | 829,001 | 49,127 | - | 878,128 |
| Accumulated depreciation | (645,541) | (49,405) | - | (694,946) |
| Total depreciable assets, net | 183,460 | (278) | - | 183,182 |
| Total capital assets, net | $ 188,523 | $ (278) | $ - | $ 188,245 |

## NOTE 4: LONG-TERM DEBT

During fiscal year 2016, the District entered into a loan agreement to purchase an ambulance and certain operating equipment. The loan carries interest at 9.75% per annum. The term of the loan is six years with quarterly payments of $7,983, commencing on October 31, 2016. The loan matures on July 31, 2022 when all remaining principal and interest on the loan is due.

The following is a summary of long-term debt activity as of June 30, 2018:

| | July 1, 2017 | Additions | Payments | June 30, 2018 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 7,361 | $ - | $ 1,420 | $ 5,941 | $ - |
| Notes Payable | 153,551 | - | 27,282 | 126,269 | 28,169 |
| | $ 160,912 | $ - | $ 28,702 | $ 132,210 | $ 28,169 |

## NOTE 5: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

### Plan Description and Benefits

The District provides other post-employment benefits (OPEB) under a multi-employer plan to qualified employees who retire from the District and meet the District's vesting requirements. Qualified employees with five years of service who retire from the District, and have reached the minimum age of 50 are eligible. The District offers post-employment medical, dental and vision benefits to retired employees who satisfy the eligibility rules. Benefits continue for the lifetime of the retiree with survivor benefits extended to surviving spouses. Benefit provisions are established through negotiations between the District and the bargaining union representing District employees.

The District participates in the CalPERS health program for medical, dental and vision coverage. CalPERS issues publicly available reports that include a full description of the benefit programs that can be found on the CalPERS website https://www.calpers.ca.gov.

### Funding Policy

The Districts' required contribution is based on projected pay-as-you-go basis. For the fiscal year ended June 30, 2018, the District contributed $54,570 to the plan including the implicit rate subsidy.

| Participant Type: | Number of Participants |
|---|---|
| Inactive participants currently receiving benefits | 2 |
| Inactive participants entitled to but not yet receiving benefit payments | - |
| Active employees | 13 |
| Total | 15 |

### Net OPEB Liability (Asset)

The table herein shows the components of the net OPEB liability of the District:

## NOTE 5: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

| | Balance June 30, 2018 |
|---|---|
| Total OPEB liability | $ 3,364,611 |
| Plan fiduciary net position | - |
| District's net OPEB liability (asset) | $ 3,364,611 |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 0.00% |

### Actuarial Methods and Assumptions

The District's net OPEB liability was measured as of June 30, 2017 using the alternative measurement method, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates. Liabilities in this report were calculated as of the valuation date.

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the actuarial assumptions shown herein, applied to all periods included in the measurement, unless otherwise specified.

| Actuarial Methods and Assumptions | |
|---|---|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2017 |
| Inflation | 2.00% |
| Salary Increases | 3.00% |
| Investment Rate of Return | 3.13% |
| Health Care Trend Rate | 6.00% |

Mortality rates were based on the 2014 rates used by CalPERS for the pension valuations.

Discount rate is based on a blend of the long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return, and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the other conditions are not met.

Since the last measurement date the assumptions for salary increases decreased from 3.25% to 3.0%, the investment rate of return decreased from 4.0% to 3.13%, and the healthcare trend rate

## NOTE 5: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

increased from 5.0% to 6.0%. The inflation rate used was 2% compared to 2.75% at the last measurement date.

### Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (Asset) (a) - (b) |
| Balances at June 30, 2017 | $ 2,971,825 | $ - | $ 2,971,825 |
| Changes for the year: | | | |
| Service cost | 355,185 | - | 355,185 |
| Interest | 92,171 | - | 92,171 |
| Employer contributions | - | - | - |
| Difference between expected and actual experience | - | - | - |
| Benefit payments | (36,408) | - | (36,408) |
| Implicit rate subsidy | (18,162) | - | (18,162) |
| Net changes | 392,786 | - | 392,786 |
| Balances at June 30, 2018 | $ 3,364,611 | $ - | $ 3,364,611 |

The following presents the District's net OPEB liability calculated using the discount rate of 3.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current rate:

| Discount rate | Net OPEB Liability (Asset) |
|---|---|
| 1% decrease (2.13%) | $ 2,806,118 |
| Current discount rate (3.13%) | 3,364,611 |
| 1% increase (4.13%) | 4,098,865 |

The following presents the District's net OPEB liability calculated using the current healthcare cost trend rate of 5.0 percent, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.0 percent) or 1-percentage-point higher (6.0 percent) than the current rate:

## NOTE 5: OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

| Healthcare trend rate | Net OPEB Liability (Asset) |
|---|---|
| 1% decrease (5.00% decreasing to 4.00%) | $ 2,769,578 |
| Current healthcare trend rate (6.00% decreasing to 5.00%) | 3,364,611 |
| 1% increase (7.00% decreasing to 6.00%) | 4,152,715 |

### OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of $447,356.

As of June 30, 2018, employer OPEB contributions of $54,570 reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

## NOTE 6: PENSION PLAN- CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

California Public Employees' Retirement System (CalPERS) which covers substantially all regular full-time employees of the District, acts as a common investment and administrative agent for participating public entities within the state of California and reports information to the District in accordance with reporting standards established by the GASB.

As of June 30, 2018, the District's proportionate share of the net pension liability, pension expense and deferred inflow of resources for the above plan and a deferred outflow of resources as shown herein.

| Pension Plan | Proportionate Share of Net Pension Liability | Deferred Outflows of Resources | Deferred Inflows of Resources | Proportionate Share of Pension Expense |
|---|---|---|---|---|
| CalPERS | $ 1,564,188 | $ 439,294 | $ 188,177 | $ 221,806 |

### Plan Description

Qualified employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Plan under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Public Agency Cost-Sharing Multiple-Employer Plan in comprised of a Miscellaneous Risk Pool and a Safety Risk Pool. Individual employers may sponsor more than one Miscellaneous or Safety plan. The District sponsors one Miscellaneous

## NOTE 6: PENSION PLAN- CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

Risk pool plan and one Safety Risk pool plan, and the information presented herein represents the allocated pension amounts for the District's plan (the Plan). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

### Benefits Provided

The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired by the district, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for employment-related disability benefits regardless of length of service and non-duty disability benefits after 4 years of service. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The Post-Retirement Death Benefit is a one-time payment made to a retiree's designated survivor or estate upon the retiree's death. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is a least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan provisions and benefits in effect at June 30, 2018, are summarized herein.

| | Miscellaneous Risk Pool | |
|---|---|---|
| | Prior to | On or after |
| Hire date | 1/1/2013 | 1/1/2013 |
| Benefit formula | 2% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 years of services | 5 years of services |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 50-62 | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.426%-2.418% | 1.0%-2.5% |
| Required employee contribution rate | 7% | 6.25% |
| Required employer contribution rate | 8.377% | 6.555% |

## NOTE 6: PENSION PLAN- CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

| | Safety Risk Pool | | |
|---|---|---|---|
| | Prior to | On or after 7/1/2010 and before | On or after |
| Hire date | 7/1/2010 | 1/1/2013 | 1/1/2013 |
| Benefit formula | 3% at 55 | 3% at 55 | 2.7% at 57 |
| Benefit vesting schedule | 5 years of services | 5 years of services | 5 years of services |
| Benefit payments | Monthly for life | Monthly for life | Monthly for life |
| Retirement age | 50 | 50-55 | 50-57 |
| Monthly benefits, as a % of eligible compensation | 3% | 2.4%-3% | 2%-2.7% |
| Required employee contribution rate | 9% | 9% | 11.500% |
| Required employer contribution rate | 19.536% | 17.689% | 12.082% |

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined annually through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for the plan for the year ended June 30, 2018 are presented above and the total District contributions were $130,863.

### Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018 the District reported net pension liabilities for its proportionate share of the Safety and Miscellaneous Risk Pools net pension liability totaling $1,564,188. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.0147% and 0.001% for the Safety and Miscellaneous Risk Pools, respectively.

For the year ended June 30, 2018, the District recognized pension expense of $221,806. The pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or methods and plan benefits. At June 30,

## NOTE 6: PENSION PLAN- CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources shown herein.

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Contributions subsequent to the measurement date | $ 130,863 | $ - |
| Effect of changes in assumptions | 213,760 | 16,390 |
| Difference between actual and expected experience | 13,534 | 5,771 |
| Net difference between projected and actual earnings on pension plan investments | 46,768 | - |
| Effect of change in proportion | 4,857 | 101,497 |
| Differences between contributions and proportionate share of contributions | 29,512 | 64,519 |
| Total | $ 439,294 | $ 188,177 |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

The net differences between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred inflows or resources and deferred outflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the Miscellaneous Plan for the June 30, 2017 measurement date is 3.9 years.

The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 3.9 years.

The deferred inflows of resources and outflows of resources will be recognized in pension expense as shown herein.

## NOTE 6: PENSION PLAN- CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

| Year Ended June 30 | Amortization |
|---|---|
| 2019 | $ 59,064 |
| 2020 | 76,706 |
| 2021 | 39,216 |
| 2022 | (54,732) |

### Actuarial Methods and Assumptions

Total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016 used the methods and assumptions herein, applied to all prior periods included in the measurement.

| | Miscellaneous | Safety |
|---|---|---|
| Valuation date | June 30, 2016 | June 30, 2016 |
| Measurement date | June 30, 2017 | June 30, 2017 |
| Actuarial cost method | Entry age normal | Entry age normal |
| Actuarial Assumptions: | | |
| Discount rate | 7.15% | 7.15% |
| Inflation | 2.75% | 2.75% |
| Salary Increases | Varies by Entry Age and Service | Varies by Entry Age and Service |
| Investment rate of return | 7.0% Net Pension Plan Investment and Administrative Expenses; includes inflation | 7.0% Net Pension Plan Investment and Administrative Expenses; includes inflation |
| Mortality | Derived using CalPERS' Membership Data for all Funds (1) | Derived using CalPERS' Membership Data for all Funds (1) |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter |

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvement using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term,

## NOTE 6: PENSION PLAN- CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of long-term expected real rate of return by asset class are summarized herein.

| Asset Class | New Strategic Allocation | Long-term Expected Real Rate of Return | Long-term Expected Real Rate of Return |
|---|---|---|---|
| Global Equity | 47.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Private Equity | 12.00% | 6.83% | 6.95% |
| Real Estate | 11.00% | 4.50% | 5.13% |
| Inflation Sensitive | 6.00% | 45.00% | 3.36% |
| Infrastructure and Forestland | 3.00% | 4.50% | 5.09% |
| Liquidity | 2.0% | -0.55% | -1.05% |
| | 100% | | |

## Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate as shown herein.

| District's proportionate share of the net pension liability: | 1% Decrease 6.15% | Discount Rate 7.15% | 1% Increase 8.15% |
|---|---|---|---|
| Miscellaneous | $ 5,205 | $ 104,610 | $ 169,820 |
| Safety | 935,744 | 1,459,578 | 2,100,393 |
| Total | $ 940,949 | $ 1,564,188 | $ 2,270,213 |

## NOTE 6: PENSION PLAN- CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

### Plan Fiduciary Net Position

Detailed information about CalPERS Miscellaneous Risk Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

## NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA is an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et Seq. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2018, the District participated in the liability and property programs of the SDRMA as follows: General and auto liability, public officials' and employees' errors and omissions and employment practices liability; total risk financing limits of $2.5 million, combined single limit at $2.5 million per occurrence, subject to the following deductibles: 1) $500 per occurrence for third party general liability property damage, 2) $1,000 per occurrence for third party auto liability property damage, 3) 50% co-insurance of cost expended by SDRMA, in excess of $10,000 up to $50,000, per occurrence, for employment related claims. However, 100% of the obligation is waived if certain criteria are met, as provided in the Memorandum of Coverage's. As respects any employment practices Claim or Suit arising in whole or in part out of any action involving discipline, demotion, reassignment or termination of any Employee, Leased Worker, Temporary Worker, Volunteer, or any worker who participates in an internship or training program which may lead to employment with the Member: (1) SDRMA shall be responsible for the first $10,000 of loss, and (2) as to amounts expended for a loss in excess of $10,000 up to $110,000, such losses will be shared between SDRMA (50%) and the Member (50%) such that the Member will be responsible for up to but not in excess of $50,000.

- Employee dishonesty coverage of $1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value (ACV) basis, to a combined (pool limit) total of $1 billion per occurrence, subject to a $1,000 deductible per occurrence.

## NOTE 7: RISK MANAGEMENT

- Boiler and machinery coverage is for the replacement cost up to $100 million per (pool limit) occurrence, subject to $1,000 deductible. Public officials personal liability is up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, deductible of $500 per claim.
- Comprehensive and collision on selected vehicles, with deductibles of $250/$500 or $500/$1,000 as elected; ACV limits.
- 

The District maintains workers compensation coverage and employer's liability coverage in accordance with statutory requirements of the State of California. Statutory limits per occurrence for workers' compensation and $5.0 million for employers' liability coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage.

As a result of the heavy rainfall in fiscal 2018, the District experienced mudslides and flooding at its Ambulance Call Center. The District has temporarily relocated the center operations while the mudslide damage is repaired. The District has initiated insurance claims against the losses and expects to recover all expenses from SDRMA in excess of its deductible share of $1,000. The amount of settlements has not exceeded losses in each of the last three fiscal years ending June 30, 2016, 2017 and 2018, respectively.

## NOTE 8: LEASE AGREEMENTS

The District currently is party to three leases wherein it leases existing office and parking space to local organizations. The leases are operated month-to-month and can be terminated by either party with a 30-day written notice. In connection with these leases, the District recognized $35,510 as rental income. As disclosed in Note 7, the District entered into a month-to-month lease for temporary housing of its Ambulance Call Center. The lease stipulates rent of $3,000 per month which is being reimbursed by SDRMA.

## NOTE 9: ACCUMULATED NET DEFICIT AND MANAGEMENT PLANS

In fiscal year 2018, the District experienced a total decrease in net assets of $657,011 from operations, in addition to the prior year restatement described in Note 1. This decrease, in addition to the prior year adjustment for the OPEB liability of $1,516,062 as described in Note 1 has increased the accumulated net deficit of $4,116,989 at June 30, 2018. As of that date, current assets exceeded current liabilities by $421,919; however, in recent years, substantial negative net cash flow from operations has resulted in a sustained draw down of the District’s available cash reserves, and the District experienced negative cash flow in the current fiscal year.

## NOTE 9: ACCUMULATED NET DEFICIT AND MANAGEMENT PLANS

The District continued to record operating expenses in excess of operating revenue, property tax, and special assessment revenues and it continued to utilize reserve funds to meet its obligations. The District is operating with a net deficit and continues to see the net deficit increase. The significant expenses of the District are payroll and benefit related expenses. In the current year, the District implemented GASB No. 75 as discussed in Note 1, which resulted in an additional charge to operating expenses of $447,356.

In the current fiscal year, Management and the Board of Trustees implemented their strategic deployment plan to maximize the potential for emergency response based on the highest probability for 911 requests for service, and at the same time reduce unnecessary payroll expenses. The reduction to payroll expenses was realized, but was offset by increased legal fees and the OPEB adjustment. Management and the Trustees believe that continued sufficient adjustments will be made to expenditures in the near term that will allow the District to operate profitably and, over time, correct the net deficit. Otherwise, if these revenue and expense adjustments are not made, the District could potentially be unable to continue as a going concern in the future.

**REQUIRED SUPPLEMENTARY INFORMATION**

# CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY – OTHER POSTEMPLOYMENT BENEFITS OBLIGATION
## June 30, 2018

| **Total OPEB Liability** | | **2018** |
|---|---|---|
| Service Cost | $ | 355,185 |
| Interest | | 92,171 |
| Benefit Payments | | (54,570) |
| **Net Change in Total OPEB Liability** | | 392,786 |
| **Total OPEB Liability - beginning** | | 2,971,825 |
| **Total OPEB Liability - ending (a)** | $ | 3,364,611 |

| Plan Fiduciary Net Position | | 2018 |
|---|---|---|
| Contributions - Employer | $ | 54,570 |
| Net Investment Income | | - |
| Benefit Payments | | (54,570) |
| Administrative Expense | | - |
| **Net Change in Plan Fiduciary Net Position** | | - |
| **Plan Fiduciary Net Position - beginning** | | - |
| **Plan Fiduciary Net Position - ending (b)** | $ | - |
| | | |
| **Net OPEB Liability (Asset) - ending (a) - (b)** | $ | 3,364,611 |
| | | |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | | 0.00% |
| | | |
| Covered-employee payroll | $ | 905,129 |
| | | |
| Net OPEB liability (asset) as a percentage of covered-employee payroll | | 371.73% |

Note: Accounting standards require presentation of 10 years of information in this schedule is not required to be presented retroactively. Years will be added to this schedule as data becomes available.

## CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## SCHEDULE OF POST EMPLOYMENT HEALTHCARE BENEFIT CONTRIBUTIONS – OTHER POSTEMPLOYMENT BENEFITS OBLIGATION
## June 30, 2018

| OPEB Contributions | | 2018 |
|---|---|---|
| Actuarially Determined Contribution (ADC) (1) | $ | 54,570 |
| Contributions in relation to the ADC | | 54,570 |
| Contribution deficiency (excess) | $ | - |
| District's covered-employee payroll | $ | 905,129 |
| Contributions as a percentage of covered-employee payroll | | 6.03% |

(1) The District did not calculate an ADC. The District contributes on a pay as you go method assumed to be an amountsufficient to fully fund the obligation over a period not to exceed 30 years.

Note: Accounting standards require presentation of 10 years of information in this schedule is not required to be presented retroactively. Years will be added to this schedule as data becomes available.

## CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
## June 30, 2018

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| District's proportion of the net pension liability | 0.01577% | 0.01669% | 0.01741% | 0.01786% |
| District's proportionate share of the net pension liability | 1,564,188 | 1,444,091 | 1,194,756 | 1,111,455 |
| District's covered payroll reported as of the previous fiscal year to align with the measurement date of the net pension liability | 951,188 | 955,565 | 894,213 | 752,508 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 164.45% | 151.12% | 133.61% | 147.70% |
| Plan's fiduciary net position as a percentage of the total pension liability | 73.31% | 74.07% | 78.40% | 79.82% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as data becomes available.

The amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

**CAMBRIA COMMUNITY HEALTHCARE DISTRICT**

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS**
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**For the Fiscal Year Ended June 30, 2018**

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 130,863 | $ 195,492 | $ 180,930 | $ 167,727 |
| Contribution in relation to the contractually required contribution | (130,863) | (195,492) | (180,930) | (167,727) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| District's covered payroll | $ 905,129 | $ 951,188 | $ 955,565 | $ 894,213 |
| Contributions as a percentage of covered payroll | 14.46% | 20.55% | 18.93% | 18.76% |

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as data becomes available.

# NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
**For the Fiscal Year Ended June 30, 2018**

## NOTE 1: PURPOSE OF SCHEDULES

### Schedule of Changes in Net OPEB Liability

The schedule is intended to show the funded status of the District's actuarially determined liability for postemployment benefits other than pensions. In the future, as data becomes available, 10 years of information will be presented.

### Schedule of Postemployment Healthcare Contributions

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

### Schedule of District's Proportionate Share of the Net Pension Liability

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

### Schedule of District's Pension Contributions

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

# OTHER INDEPENDENT AUDITORS' REPORT

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

Board of Directors
Cambria Community Healthcare District
Cambria, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Cambria Community Healthcare District (the District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 9, 2019.

## Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
April 9, 2019

## FINDINGS AND RESPONSES

## CAMBRIA COMMUNITY HEALTHCARE DISTRICT

## SCHEDULE OF FINDINGS AND RESPONSES
**June 30, 2018**

There were no findings for the year ended June 30, 2018.

# STATUS OF PRIOR YEAR FINDINGS
## June 30, 2018

### 2017-001 STATUS OF PRIOR YEAR FINDINGS

**Finding:** Our audit procedures revealed the lack of a systematic method to ensure complete monthly closing procedures take place and reconciliations are performed. A lack of specific closing procedures and multiple accounts that are not regularly reconciled may ultimately cause significant errors in the financial records and statements as well as allow possible irregularities, including fraud, to exist and continue without notice. We noted the following deficiencies:

- There are no formal procedures for monthly close activities or regular account reconciliations (other than cash). This resulted in multiple errors identified in the accounts and necessitated numerous audit adjustments as part of the annual audit procedures.

- The accounts receivable balance was not reconciled to the general ledger. The reserve for doubtful accounts was not being properly estimated and recorded. Accounts receivable were being adjusted under the direct write off method which did not constitute an appropriate accounting method under US GAAP. The adjustment to reconcile the accounts receivable and to correct the reserve for doubtful accounts resulted in an audit adjustment to correct a material overstatement of bad debt expense.

- The detailed fixed asset listing was not reconciled to the general ledger. In addition, the fixed asset listing had not been evaluated for fully depreciated assets which were no longer in use and should be removed from the fixed asset detail. Although this did not impact the fixed asset balance, net of accumulated depreciation, it resulted in material overstatement of the gross capital equipment as reported in the financial statements. In addition, the depreciation expense was not being evaluated on a regular basis, resulting in depreciation being recorded in excess of the original cost of the related assets.

- The purchase of a material capital asset and the associated note payable were not properly recorded on the District's general ledger resulting in understated capital assets and debt obligations of the District and overstatement of the District's operating expenses.

- The accounts payable balance was not reconciled to the general ledger resulting in prior year accounts payable balances not being properly reversed and current year accounts payable balances not being supported.

- Journal entries did not show evidence of review by someone other than the preparer. The lack of review over journal entries allows potential errors or irregularities, including fraud, to occur without detection.

- Journal entries for prior year close and audit adjustments were not recorded which caused the financial records and general ledger balances to not reconcile to the 2015-16 audited financial statements.

## STATUS OF PRIOR YEAR FINDINGS
## June 30, 2018

### 2017-001 STATUS OF PRIOR YEAR FINDINGS

**Recommendation:** Establish a system of consistent monthly reconciliations and closing procedures in order to provide more accurate financial statements. We strongly recommend the District establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of all accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year.

**Status:** Implemented.