



Wipfli LLP
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Spokane, WA 99201
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November 15, 2017

Board of Directors
Del Puerto Health Care District
P.O. Box 875
Patterson, CA 95363

We have audited the financial statements of Del Puerto Health Care District (the "District") for the year ended June 30, 2016, and have issued our report thereon dated November 15, 2017. Professional standards require that we provide you with the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States

As stated in our engagement letter dated November 9, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we obtained a sufficient understanding of the District's internal control over financial reporting to plan the audit. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Other Information in Documents Containing Audited Financial Statements

The auditor's responsibility for other information in documents containing audited financial statements does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. Our responsibility is to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements.

We are not aware of any documents or other information containing audited financial statements, and furthermore management has not requested us to devote attention to any documents containing audited financial statements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to your representative, Karin Hennings, in our meeting about planning matters on March 17, 2017 in addition to our engagement letter dated November 9, 2016, accepted by Karin Hennings.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There were no significant transactions that have been recognized in the financial statements in a different period than when the transactions occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

The adequacy of the allowance for accounts receivable is one of the most subjective estimates affecting the financial statements. The allowance for accounts receivable is maintained at a level which management believes is adequate to provide for possible write-offs. Management periodically evaluates the adequacy of the allowance using the District's past bad debt experience, known and inherent risks in accounts receivable, current economic conditions, and other relevant factors. We evaluated the key factors and assumptions used to develop the allowance for accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole

The estimated final settlements on the Medi-Cal cost reports are based on audits conducted by the fiscal intermediary. Management periodically evaluates the adequacy of the balance using the District's experience, known and inherent risks in the preparation of these cost reports, and risks associated with doing business in the health care industry. We reviewed the estimated settlements recorded for each open year to determine the reasonableness of the estimates based on the results of previous audits by the fiscal intermediary.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Long-term Debt in Note 6 to the financial statements. The District entered into a financing arrangement with TriCounties Bank for the purchase of the Keystone C real property. The new loan agreement was executed three days prior to the fiscal year-end and materially affects the debt ratios of the District on their balance sheet.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the District's financial reporting process.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 15, 2017, a copy of which accompanies this letter.

Management Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. To our knowledge, management has not consulted other accountants on the application of accounting principles generally accepted in the United States which would affect the District's financial statements or a determination of the type of auditor's opinion which may be expressed on the financial statements.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not, in our judgment, a condition of our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the District, in accordance with auditing standards generally accepted in the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

November 15, 2017

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in the District's internal control to be significant deficiencies:

Financial Accounting and Reporting

A client's internal control over financial reporting does not end at the general ledger, but extends to the financial statements and notes. As part of our professional services for the year ended June 30, 2016 Wipfli assisted in drafting the financial statements and related notes. The District does not have sufficient expertise to prepare its own financial statements and footnotes. Because the District relies on Wipfli to provide the necessary understanding of current accounting and disclosure principles in the preparation of the financial statements, a significant deficiency exists in the District's internal controls.

Accounts Receivable

The District outsources the billing and collections of their accounts receivable for both the clinic and ambulance services. The companies performing those services have been unable to provide timely, detailed information necessary to evaluate the adequacy of those services. The District has relied upon monthly reporting of revenues, write-off and collections, without the ability to independently verify the patients are being appropriately charged and credited for the services provided. Because the District is not provided information in sufficient detail and does not periodically perform a detailed reconciliation of the processes, a significant deficiency exists in the District's internal controls.

We appreciate the opportunity to be of service to Del Puerto Health Care District.

This communication is intended solely for the use of the Board of Directors and, if appropriate, management and is not intended to be, and should not be, used by anyone other than these specified parties. *Distribution of this letter by the specified parties to other third parties does not constitute designation of those third parties as "users" or "specified parties" with respect to this letter or the matters addressed herein, nor does it permit those third parties to use or rely upon this letter for any purpose.*

Sincerely,

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

AJE

Year End: June 30, 2016
 AJE
 Date: 7/1/2015 To 6/30/2016

Started	Completed by MSM 6/19/2017	Reviewed by
Partner by EV 7/17/2017	Concurred by	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
1	6/30/2016	TCB-Operating Checking	1000.1001	WTB. 1		144.00			
1	6/30/2016	Health Center - Health Center Receivable	1130.1131	WTB. 1		6,122.00			
1	6/30/2016	Accounts Payable	2000.0000	WTB. 1			144.00		
1	6/30/2016	NPSR - DPHC - Contractual Adjustments	4000.4101	WTB. 1		324.00			
1	6/30/2016	NPSR - DPHC - Contractual Adjustments	4000.4101	WTB. 1			11,808.00		
1	6/30/2016	NPSR - DPHC - Capitation Pymts	4000.4105	WTB. 1		4,088.00			
1	6/30/2016	NPSR - DPHC - Overpayments Returned HC	4000.5103	WTB. 1		843.00			
1	6/30/2016	Other Income	5905.0000	WTB. 1		431.00			
PBC Entries - Auditor adjusted for the net effect of the change in the new TB that was provided on the first day of fieldwork.									
2	6/30/2016	Medi-Cal RHC Receivables - FY 2016 PPS	1260.1266			54,429.00			
2	6/30/2016	NPSR - DPHC - Received from Written Off Acct	4000.4104				54,429.00		
To book PPS Recon for FYE 2016 as filed by HFS									
3	6/30/2016	Health Center - Health Center Receivable	1130.1131			29,623.00			
3	6/30/2016	NPSR - DPHC - Contractual Adjustments	4000.4101				29,623.00		
Correct AR - to remove PPS payment that is offsetting HC AR									
						96,004.00	96,004.00		
			Net Income (Loss)			415,195.00			

Please sign to approve the adjusting entries for the 2016 audit.

Karen Hennings

11/15/17



P.O. Box 187
Patterson, CA. 95363

Phone 209-892-8781
Fax 209-892-3755

November 15, 2017

WIPFLi, LLP
201 W North River Drive, Suite 400
Spokane, Washington 99201

This representation letter is provided in connection with your audit of the financial statements of Del Puerto Health Care District, which comprise the balance sheet as of June 30, 2016, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief as of date of this letter, the following representations made to you during your audit:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 9, 2016.
2. The financial statements referred to above are fairly presented in conformity with GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of GAAP.
7. All events subsequent to the date of the financial statements and for which GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. We agree with the adjusting journal entries proposed by you and which are given effect to in the financial statements.
9. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with GAAP. All pending or threatened claims made known to you cannot be quantified and therefore do not require disclosure of financial information. We have not consulted a lawyer concerning any additional litigation, claims, or assessments.
10. Material concentrations have been properly disclosed in accordance with GAAP.
11. Guarantees, whether written or oral, under which the District is contingently liable, have been properly recorded or disclosed in accordance with GAAP.

Information Provided

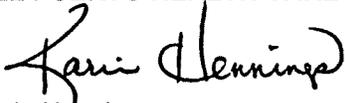
12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the District from who you determined it necessary to obtain audit evidence.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud affecting the District involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, regulators, or others.
16. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements. Specifically:
 - a. There are no violations or possible violations of laws or regulations, such as those related to the Medicare and Medi-Cal antifraud and abuse statutes, including but not limited to the Medicare and Medicaid Anti-Kickback Statute, Limitations on Certain Physician Referrals (the Stark law), and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.

- b. Billings to third-party payors comply in all material respects with applicable coding guidelines (for example, ICD-10-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medi-Cal antifraud and abuse), and billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
 - c. There have been no communications (oral or written) from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medi-Cal antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
17. Receivables recorded in the financial statements represent valid claims for charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value as follows:
- a. Adequate consideration has been given to, and appropriate provision made for, estimated adjustments to revenue, such as for denied claims and changes to prospective payment system assignments.
 - b. Recorded valuation allowances are necessary, appropriate, and properly supported.
 - c. All peer review Districts, fiscal intermediary, and third-party payor reports and information have been made available to you.
18. Provision has been made, when material, for estimated retroactive adjustments by third-party payors under reimbursement agreements. Regarding cost reports filed with third-parties:
- a. All required Medicare, Medi-Cal, and similar reports have been properly filed on a timely basis.
 - b. Management is responsible for the accuracy and propriety of all cost reports filed.
 - c. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.
 - d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - e. Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.
 - f. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - g. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

19. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
20. We have disclosed to you all known actual or possible litigation, asserted and unasserted claims, and assessments whose effects should be considered when preparing the financial statements. Adequate and reasonable provision has been made for losses related to asserted and unasserted malpractice, health insurance, worker's compensation, and any other claims or assessments.
21. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.
22. Inventories fairly represent the value of inventories at the lower of cost, first-out method, or market.
23. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
24. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any material asset been pledged, except as disclosed in the notes to the financial statements.
25. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
26. The District is in compliance with bond and/or debt covenants, and we believe debt is properly classified as long-term.)
27. The District has classified net assets as unrestricted and restricted for debt service, using evidential matter, including minutes of the board, accounting records, and financial statements.
28. The District has identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
29. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the District vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
30. The District is not subject to the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* because it did not expend more than \$750,000 in federal awards during the year.

Sincerely,

DEL PUERTO HEALTH CARE DISTRICT



Karin Hennings
Administrative Director / CEO



P.O. Box 187
Patterson, CA. 95363

Phone 209-892-8781
Fax 209-892-3755

November 15, 2017

WIPFLi, LLP
201 W North River Drive, Suite 400
Spokane, Washington 99201

We are writing to confirm that Del Puerto Health Care District had none of the following events occur during the time period starting with our most recent fiscal year-end June 30, 2016 to the date of the letter. There have been no:

1. Subsequent settlements of a contingent liability or litigation at an amount that is different from the amount recorded in the draft year-end financial statements, if applicable.
2. New (previously undisclosed to WIPFLi LLP) pending or threatened litigation, claims, or assessments, or unasserted claims or assessments.
3. Substantive consultations with the attorneys, selected for confirmation by you, since the effective date of the respective legal confirmations.
4. Material adverse changes in financial position of the District since year-end.
5. Material changes to any significant estimates in the draft year-end financial statements.
6. Sales of any assets subsequent to year-end at a price significantly less than the carrying value in the draft financial statements.
7. Losses of major customers or significant customer bankruptcy since year-end.
8. Plant shutdowns or strikes, if applicable.
9. Changes to previously disclosed substantial contingent liabilities or commitments that existed at the date of the balance sheet, and no new substantial contingent liabilities or commitments have become known since the balance sheet date.
10. Significant changes in the capital stock, long-term debt, or working capital.
11. Changes in the current status of items in the financial statements being reported on that were accounted for on the basis of tentative, preliminary, or inconclusive data.
12. Unusual adjustments made during the period from the balance sheet date to the date of this inquiry.
13. Significant undisclosed (in the draft year-end financial statements) financial commitments.
14. Commitments or plans for major purchases of capital assets or inventory exist, and consideration was given to possible losses due to price changes.

15. Changes in accounting or financial policies.
16. Events that caused a decline in the value of any assets or that made any significant portion of fixed assets idle or obsolete.
17. Expiration or cancellation of significant insurance coverage.
18. New regulatory requirements or laws that could adversely affect the entity.
19. Liabilities in dispute or being contested.
20. Losses of major suppliers or key executive employees.
21. New, or change to, related-party transactions since year-end.
22. Minutes (or summaries in place of approved minutes) from stockholder or director meetings have been prepared and not provided to you for the period under audit through the date of this letter.
23. Meetings of directors or stockholders where minutes have not yet been prepared.

Sincerely,

DEL PUERTO HEALTH CARE DISTRICT

A handwritten signature in black ink that reads "Karin Hennings". The signature is written in a cursive style with a large initial 'K' and a long, sweeping underline.

Karin Hennings
Administrative Director / CEO

Signed November 15, 2017

Del Puerto Health Care District

Patterson, California

Financial Statements

Year Ended June 30, 2016

WIPFLI^{LLP}
CPAs and Consultants

Del Puerto Health Care District

Financial Statements and Supplementary Information

Year Ended June 30, 2016

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Independent Auditor's Report

Board of Directors
Del Puerto Health Care District
Patterson, California

We have audited the accompanying financial statements of Del Puerto Health Care District (the "District"), as of June 30, 2016, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

We believe that the audit evidence 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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements are not affected by this missing information.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

November 15, 2017
Spokane, Washington

Del Puerto Health Care District

Statement of Net Position

June 30, 2016

<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 824,036
Restricted cash	67,611
Receivables:	
Patient accounts - Net	800,148
Due from third-party payors	198,352
Inventory	35,221
Prepays	13,391
<hr/>	
Total current assets	1,938,759
Noncurrent assets:	
Internally designated cash and cash equivalents	98,210
Capital assets - Net	5,075,171
<hr/>	
Total noncurrent assets	5,173,381
<hr/>	
TOTAL ASSETS	\$ 7,112,140

Del Puerto Health Care District

Statement of Net Position (Continued)

Year Ended June 30, 2016

Liabilities and Net Position	
Current liabilities:	
Current maturities of long-term debt	\$ 84,558
Accounts payable	115,902
Accrued compensation and related liabilities	96,655
Total current liabilities	297,115
Noncurrent liabilities - Long-term debt	3,129,078
Total liabilities	3,426,193
Net position:	
Net investment in capital assets	1,861,535
Restricted for debt service	67,611
Unrestricted	1,756,801
Total net position	3,685,947
TOTAL LIABILITIES AND NET POSITION	\$ 7,112,140

Del Puerto Health Care District

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2016

Revenue:	
Net patient service revenue	\$ 3,643,284
Other operating revenue	280,342
Total revenue	3,923,626
Operating expenses:	
Salaries and wages	1,522,759
Employee benefits	443,619
Professional fees	1,251,382
Purchased services	467,408
Supplies	162,003
Utilities	87,630
Rental and lease	11,504
Insurance	277,277
Repairs and maintenance	101,568
Depreciation	188,788
Other	134,719
Total operating expenses	4,648,657
Loss from operations	(725,031)
Nonoperating revenue (expenses):	
Property tax revenue	1,196,529
Impact mitigation fees	12,626
Interest earnings	1,423
Interest expense	(70,352)
Total nonoperating revenue	1,140,226
Revenue in excess of expenses	415,195
Net position - Beginning of year	3,270,752
Net position - End of year	\$ 3,685,947

Del Puerto Health Care District

Statement of Cash Flows

Year Ended June 30, 2016

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 3,366,963
Receipts from other operating revenue	280,342
Payments to employees	(2,002,883)
Payments to suppliers	(2,404,018)
<hr/>	
Net cash used in operating activities	(759,596)
Cash flows from noncapital financing activities:	
Property tax revenues	1,196,529
Impact mitigation fees	12,626
<hr/>	
Net cash provided by noncapital financing activities	1,209,155
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(52,289)
Interest payments	(70,352)
Purchase of capital assets	(2,166,965)
Proceeds from debt borrowings	1,365,000
<hr/>	
Net cash used in capital and related financing activities	(924,606)
Cash flows from investing activities:	
Net change in Internally designated cash and cash equivalents	(12,264)
Interest received	1,423
<hr/>	
Net cash used in investing activities	(10,841)
<hr/>	
Net decrease in cash and cash equivalents	(485,888)
Cash and cash equivalents - Beginning of year	1,309,924
<hr/>	
Cash and cash equivalents - End of year	\$ 824,036

Del Puerto Health Care District

Statement of Cash Flows (Continued)

Year Ended June 30, 2016

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (725,031)
<hr/>	
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation	188,788
Provision for uncollectible accounts	593,094
Changes in operating assets and liabilities:	
Receivables:	
Patient accounts	(685,968)
Due from third-party payors	(60,591)
Inventory	(675)
Prepays	5,605
Accounts payable	(38,313)
Accrued compensation and related liabilities	(36,505)
<hr/>	
Total adjustments	(34,565)
<hr/>	
Net cash used in operating activities	\$ (759,596)

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Del Puerto Health Care District (the "District") is a public entity organized under Local Health Care District Laws as set forth in the Health and Safety Code of the State of California. The district operates a federally designated Rural Health Clinic providing physician and related health care services and an advanced life support ambulance service for the community of Patterson and the surrounding area. As a political subdivision of the State of California, the District is generally not subject to federal or state income taxes. The Board of Trustees consists of five residents of the District elected or appointed to four-year terms.

The District provides health care services to patients in western Stanislaus County, California. The services provided include adult, pediatric, and industrial health services, as well as women's health care education, diabetes education for the public, laceration treatment, and asthmatic treatment programs. The ambulance service offers 24-hour emergency medical services as well as Event Standby services.

Basis of Accounting and Financial Statement Presentation

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard-setting body in the United States for establishing governmental accounting and financial reporting principles.

The District uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic measurement focus.

Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The District considers cash and cash investments with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts. Patient accounts receivable are recorded in the accompanying statement of net position net of contractual adjustments and an allowance for doubtful accounts, which reflects management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross patient service revenue and a credit to patient accounts receivable.

In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

In evaluating the collectability of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

District Tax Revenues

Property taxes are levied annually by the County of Stanislaus (the "County") on behalf of the District and are intended to finance the District's activities. The County's fiscal year is from July 1 through June 30. Amounts of tax levied are based on assessed property values as of the first day of January proceeding the fiscal year for which the taxes are levied.

Inventories

Inventories consist of pharmaceutical, medical-surgical, and other supplies and are valued at the lower of cost or market, determined on an average cost method.

Noncurrent Cash and Cash Equivalents

Noncurrent cash and cash equivalents include designated assets set aside by the Board for certain debt agreements and future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets and Equipment

Property and equipment acquisitions are recorded at cost if purchased or, if donated, at fair market value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Depreciation and amortization have been computed using the straight-line method over the following estimated useful service lives:

Land and improvements	10 to 15 years
Buildings and improvements	10 to 40 years
Fixed equipment	10 to 15 years
Major movable equipment	3 to 10 years

Asset Impairment

The District reviews the recoverability of its long-lived assets, which consist primarily of property and equipment with finite useful lives, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In the event that facts and circumstances indicate the carrying value of any long-lived assets may be impaired, an evaluation of recoverability would be performed. If the sum of the expected cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and the carrying value of the asset or group of assets. As of June 30, 2016, the District had determined that no capital assets were impaired.

Accrued Compensated and Related Liabilities

Employees of the District earn vacation and sick hours at varying rates as provided by the District's employee benefit policies. The District's policy is to permit employees to accumulate paid time off up to a maximum. Employees are paid for accumulated vacation benefits but do not receive payment of accumulated sick leave upon termination or retirement. Accrued vacation liabilities at June 30, 2016, were \$67,299.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position is classified and displayed in three components: (1) Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets, (2) Restricted resources are a component of net position with constraints placed on their use either by creditors, grantors, donors, etc. or by law through constitutional provision or enabling legislation, and (3) Unrestricted resources are all other assets that do not meet the definition of restricted resources or net investment in capital assets. When the District has both restricted and unrestricted resources available to finance particular program/activities, it is the District's policy to use restricted resources before unrestricted resources.

Operating Revenue and Expenses

The District's statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services, the District's principal activity. Nonexchange revenue, including grants, property taxes, and contributions received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The provision for uncollectible accounts is offset by recoveries that are received on prior-year bad debts from patient payments.

Advertising Costs

The District charges advertising costs to operations as incurred.

Excess of Revenue Over Expenses

The accompanying statement of revenue, expenses, and changes in net position includes excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net position that are excluded from the operating indicator include assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets.

Subsequent Event

Subsequent events have been evaluated through November 9, 2017, which is the date the financial statements were available to be issued.

Del Puerto Health Care District

Notes to Financial Statements

Note 2: Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. At June 30 2016, the District had an uninsured and uncollateralized deposit balance of \$713,419, without consideration for deposits in transit and outstanding checks. All funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for federally insured funds.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

Currently, all investments are held in money market accounts with maturities less than three months and are considered cash and cash equivalents.

Del Puerto Health Care District

Notes to Financial Statements

Note 3: Reimbursement Arrangements With Third-Party Payors

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

Medicare - The District's health center is designated as a rural health clinic (RHC). Under this designation, ambulatory patient care services are paid based on a cost-reimbursement methodology. Professional services provided by physicians and other clinicians are reimbursed based on prospectively determined fee schedules. The District's clinic is certified as a rural health clinic.

Medi-Cal - Ambulatory care services provided to Medi-Cal program beneficiaries are reimbursed under a cost-reimbursement methodology. Medi-Cal reimburses RHC's on a prospective rate that is based on historical cost with a cost report settlement at year-end.

Others - The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes fee for service, discounts from established charges, and others.

Accounting for Contractual Arrangements

The District is reimbursed for cost-reimbursable items at interim rates, with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medi-Cal fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The District's cost reports have been examined through 2015 by both the Medicare and Medi-Cal fiscal intermediaries.

Del Puerto Health Care District

Notes to Financial Statements

Note 3: Reimbursement Arrangements With Third-Party Payors (Continued)

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include but are not necessarily limited to matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the District is in compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the District, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

CMS uses recovery audit contractors (RAC) to search for potentially inaccurate Medicare payments that might have been made to health care providers and were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District has the ability to appeal these adjustments. As of June 30, 2016, the District had not been notified by the RAC of any potential reimbursement adjustments.

Del Puerto Health Care District

Notes to Financial Statements

Note 4: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	Ambulance	Clinic	Total
Receivables from patients and their insurance carriers	\$ 475,189	\$ 78,548	\$ 553,737
Receivables from Medicare	68,856	62,448	131,304
Receivables from Medi-Cal	130,832	412,385	543,217
Total patient accounts receivable	674,877	553,381	1,228,258
Less:			
Allowance for doubtful accounts	(377,910)	(50,200)	(428,110)
Net patient accounts receivable	\$ 296,967	\$ 503,181	\$ 800,148

The District's allowance for doubtful accounts increased from \$297,484 in 2015 to \$428,110 in 2016. The District has plans to formalize a charity care policy during the next fiscal year.

Note 5: Capital Assets

Capital asset balances and activity were as follows for the year ended June 30:

	Balance July 1, 2015	Transfers/ Additions	Retirements	Balance June 30, 2016
Nondepreciable assets:				
Land	\$ 162,914	\$ 148,000	\$ -	\$ 310,914
Depreciable assets:				
Buildings and leasehold improvements	3,124,739	1,802,451	-	4,927,190
Equipment	1,214,171	216,514	-	1,430,685
Total depreciable capital assets	4,338,910	2,018,965	-	6,357,875
Total capital assets before depreciation	4,501,824	2,166,965	-	6,668,789
Less - Accumulated depreciation for:				
Buildings and leasehold improvements	390,821	48,366	-	439,187
Equipment	1,014,009	140,422	-	1,154,431
Total accumulated depreciation	1,404,830	188,788	-	1,593,618
Total capital assets - Net	\$ 3,487,815	\$ 2,026,543	\$ -	\$ 5,075,171

Del Puerto Health Care District

Notes to Financial Statements

Note 6: Long-term Debt

Long-term debt as of June 30, 2016, consisted of the following:

	Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amount Due Within One Year
Long-term debt:					
Note payable to USDA, interest at 3.75%, monthly principal and interest payments of \$10,060; final payment due in 2040; secured by property.	\$ 1,899,004	\$ -	\$ 50,368	\$ 1,848,636	\$ 55,138
Note payable to a bank, interest at 4.25%, monthly principal and interest payments of \$7,442; final payment due in 2023; secured by property.	-	1,365,000	-	1,365,000	29,420
Total long-term debt	\$ 1,899,004	\$ 1,365,000	\$ 50,368	\$ 3,213,636	\$ 84,558

Scheduled principal and interest payments on long-term debt are as follows:

	Principal	Interest	Total
2017	\$ 84,558	\$ 125,557	\$ 210,115
2018	89,637	118,945	208,582
2019	93,218	115,458	208,676
2020	96,955	111,488	208,443
2021	100,842	107,529	208,371
2022 - 2026	577,896	399,629	977,525
2027 - 2031	703,801	258,576	962,377
2032 - 2036	857,154	110,559	967,713
2037 - 2040	609,575	673,306	1,282,881
Totals	\$ 3,213,636	\$ 2,021,047	\$ 5,234,683

The District was in compliance with its debt covenants at June 30, 2016.

Del Puerto Health Care District

Notes to Financial Statements

Note 7: Net Patient Service Revenue

Net patient service revenue consisted of the following for the year ended June 30, 2016:

	Ambulance	Clinic	Total
Gross patient service revenue:	\$ 4,880,064	\$ 2,395,024	\$ 7,275,088
Less:			
Contractual allowances	2,891,335	147,375	3,038,710
Provision for uncollectible accounts	615,746	(22,652)	593,094
Net patient service revenue	\$ 1,372,983	\$ 2,270,301	\$ 3,643,284

The following table reflects the percentage of gross patient service revenue by payor source for the year ended June 30, 2016:

	Ambulance	Clinic
Medicare	2.4%	38.5%
Medi-Cal	79.9%	31.2%
Other third-party payors	17.0%	19.7%
Self-pay	0.6%	10.5%
Totals	100%	100%

Note 8: Charity Care

Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or who are underinsured. The District does not currently have a formal charity care policy. Health care services to patients under government programs such as Medi-Cal are also considered part of the District's benefit provided to the community, since a substantial portion of such services is reimbursed at amounts that are less than the costs of providing care.

Del Puerto Health Care District

Notes to Financial Statements

Note 9: Risk Management

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

Medical Malpractice Claims

The District obtains medical malpractice insurance through BETA Healthcare Group (BETA), which offers the District a professional and general liability policy on a "claims made" basis with primary limits of \$5,000,000 per claim and an annual aggregate limit of \$15,000,000. The policy has no deductible.

No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

Note 10: Concentration of Credit Risk

The district grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District, and management does not believe there are any credit risks associated with these government agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2016, was as follows:

Medicare	11%
Medi-Cal	44%
Other third-party payors	19%
Self-pay	26%
<hr/>	
Gross patient accounts receivable	100%

Del Puerto Health Care District

Notes to Financial Statements

Note 11: Commitments and Contingencies

Litigation - The District may, from time to time be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel, management estimated that matters existing as of June 30, 2016, will be resolved without material adverse effect to the District's future financial position, results from operations, or cash flows.

Operating leases - The District leases various pieces of equipment under operating leases expiring at various dates. Total equipment leases and rent expense for the year ended June 30, 2016, was \$11,504. Future minimum lease payments for succeeding years under operating leases with remaining terms in excess of one year as of June 30, 2016, are not considered material.

Health Insurance Portability and Accountability Act - The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include but are not limited to matters such as the Affordable Care Act, licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes the District is in compliance with all such applicable laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations as well as regulatory actions unknown at this time.

Retirement Plan

The District has a defined contribution retirement plan covering substantially all of the District's employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The District contributes to the plan at a rate of three percent of eligible compensation, which is defined by the plan. The District's contributions become fully vested after five years of continuous service. The District's pension expense for the plan was \$56,665 for the year ended June 30, 2016.