

Del Puerto Health Care District

Patterson, California

Financial Statements

Years Ended June 30, 2018 and 2017

WIPFLi^{LLP}
CPAs and Consultants

Del Puerto Health Care District

Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Del Puerto Health Care District
Patterson, California

Report on the Financial Statements

We have audited the accompanying financial statements of Del Puerto Health Care District (the "District"), as of the years ended June 30, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence 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 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 7 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, 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.

Wipfli LLP

Wipfli LLP

March 14, 2018
Spokane, Washington

Del Puerto Health Care District

Management's Discussion and Analysis

Years Ended June 30, 2018 and 2017

Our discussion and analysis of the financial performance of Del Puerto Health Care District (the "District") provides an overview of the District's financial activities for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the District's financial statements, which begin on page 8.

Financial Highlights

- The District's net position increased by \$961,000 in the past year from \$4,181,000 at June 30, 2017, to \$5,142,000 at June 30, 2018. In the prior year, the District's net position increased by \$495,000 from \$3,686,000 at June 30, 2016, to \$4,181,000 at June 30, 2017.
- Gross patient revenue increased 34% from \$7,825,000 in fiscal year 2017 to \$10,468,000 in fiscal year 2018. Revenue deductions increased 49% in the past year from \$3,708,000 to \$5,514,000. Operating expenses increased 6% in the past year from \$4,966,000 to \$5,240,000 in fiscal year 2018.

Using this Annual Report

The District's financial statements consist of three statements—statements of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes to the financial statements provide information about the activities of the District, including resources held by the District.

The Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position

The District's financial statements begins on page 8. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The statements of net position and statements of revenue, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

The two statements referred to above report the District's net position and its changes. The District's net position—the difference between assets and liabilities—is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are indicators of whether its financial health is improving or deteriorating. Readers should also consider other nonfinancial factors such as changes in the District's patient base, measures of quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

The Statements of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as, "Where did cash come from?", "What was cash used for?", and "What was the change in cash balances during the reporting period?"

Del Puerto Health Care District

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2018 and 2017

The District's Net Position

The District's net position is the difference between the assets and liabilities reported in the statements of net position on page 8. The District's net position increased from June 30, 2017 to June 30, 2018, by \$961,000, as detailed in the following table:

Condensed Statements of Net Position at June 30 (in thousands)

	2018	2017	Increase (Decrease)
Assets:			
Current assets	\$ 2,894	\$ 2,373	\$ 521
Noncurrent assets	5,491	5,217	274
Total assets	8,385	7,590	795
Liabilities:			
Current liabilities	344	367	(23)
Long-term liabilities	2,899	3,042	(143)
Total liabilities	3,243	3,409	(166)
Net position:			
Net invested in capital assets	2,204	1,906	298
Restricted for debt service	92	80	12
Unrestricted	2,846	2,195	651
Total net position	5,142	4,181	961
TOTAL LIABILITIES AND NET POSITION	\$ 8,385	\$ 7,590	\$ 795

Del Puerto Health Care District

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2018 and 2017

Operating Results and Changes in the Del Puerto's Net Position

Revenue, Expenses, and Changes in Net Position For The Years Ended June 30 (in thousands):

	2018	2017	Increase (Decrease)
Operating revenue:			
Gross patient service revenue	\$ 10,468	\$ 7,825	\$ 2,643
Contractual adjustments	(5,514)	(3,708)	(1,806)
Provision for bad debts	(755)	(494)	(261)
Net patient service revenue	4,199	3,623	576
Other operating revenue	189	234	(45)
Total operating revenue	4,388	3,857	531
Operating expenses:			
Salaries and wages	2,138	2,017	121
Employee benefits	475	591	(116)
Professional fees	892	847	45
Purchased services	483	476	7
Supplies	176	163	13
Utilities	69	78	(9)
Rental and lease	9	10	(1)
Insurance	410	254	156
Repairs and maintenance	126	88	38
Depreciation	257	246	11
Other	205	196	9
Total operating expenses	5,240	4,966	274
Loss from operations	(852)	(1,109)	257
Nonoperating revenue	1,813	1,604	209
Excess of revenue over expenses	961	495	466
Net position - At beginning	4,181	3,686	495
Net position - At end	\$ 5,142	\$ 4,181	\$ 961

Del Puerto Health Care District

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2018 and 2017

Operating Income

Gross patient service revenue increased \$2,643,000 compared to an increase of \$2,067,000 in revenue deductions. Gross patient service revenue increased in fiscal year 2018 because of an increase in ambulance rates that took effect in May 2017. The increase in revenue deductions is primarily the result of the increase in gross charges coupled with low reimbursement rates which increase revenue deductions.

Total operating expenses increased \$274,000 from fiscal year 2016 - 2017. This change is due primarily to increases in salaries and benefits of \$122,000, legal and professional fees of \$45,000, and repairs and maintenance costs of \$38,000. Salaries and benefits increased due to elevated FTEs and average hourly rate and the benefits associated with them along with increased health insurance cost. Legal and professional fees increased because of ongoing litigation. Repairs and maintenance costs increased due to additional building maintenance and additional ambulance maintenance required as a result of high mileage and fully depreciated ambulances that are beyond their service life. Management has presented a vehicle replacement plan to reduce the average age of ambulances which will reduce excessive repair costs.

Nonoperating Income

For the fiscal year 2018, nonoperating revenue consisted primarily of property tax revenue. The District received \$1,524,000 in property tax revenue. During 2017, property and sales tax revenue received by the District totaled \$1,371,000. In addition, the District received \$230,000 in Impact Mitigation fees in 2018 compared with \$20,000 in 2017.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income and nonoperating revenue and expenses discussed earlier.

Del Puerto Health Care District

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2018 and 2017

Capital Assets and Accumulated Depreciation

As of June 30, 2018, the District had \$5,184,000 invested in capital assets, net of accumulated depreciation. The historical cost and additions to capital assets, and the changes in accumulated depreciation, for the year ended June 30, 2018, are detailed in the following table:

Capital Assets and accumulated Depreciation For The Year Ended June 30, 2018 (in thousands):

June 30	Balance 2017	Additions	Disposals	Transfer and adjustments	Balance 2018
Land and improvements	\$ 311	\$ -	\$ -	\$ -	311
Buildings and leasehold improvements	4,927	-	-	-	4,927
Fixed and moveable equipment	1,357	83	-	-	1,440
Subtotal	6,595	83	-	-	6,678
Less: Accumulated depreciation	1,564	257	-	-	1,821
Subtotal	5,031	(174)	-	-	4,857
Construction in progress	4	382	-	59	327
Capital assets - Net	\$ 5,035	\$ 208	\$ -	\$ 59	\$ 5,184

Long-term Liabilities

At year end, the District's long-term liabilities consisted of a USDA notes payable totaling \$1,743,000 and a bank loan for real property in the amount of \$1,238,000, for an aggregate outstanding total liabilities of \$2,980,000. Of this amount, \$81,000 is due in installments over the next 12-month period.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, creditors, and members of our community with a general overview of the District's finances and to show the District's accountability for the money it receives. For questions about this report or for additional financial information, please contact the Administrative Director / Chief Executive Officer at Del Puerto Health Care District, 875 E Street, Patterson, CA 95363.

Del Puerto Health Care District

Statements of Net Position

<i>June 30,</i>	2018	2017
Current assets:		
Cash and cash equivalents		
Cash	\$ 1,847,554	\$ 1,544,462
Restricted Cash	91,941	79,771
Receivables:		
Patient accounts receivables - Net	683,592	566,872
Third-party settlements	184,989	141,348
Other receivables	15,645	14,193
Inventory	36,957	32,981
Prepays	33,209	7,161
Total current assets	2,893,887	2,372,595
Noncurrent assets:		
Board restricted cash and cash equivalents	307,349	182,401
Capital assets:		
Nondepreciable capital assets	638,503	314,914
Depreciable capital assets - Net	4,545,565	4,720,159
Capital assets - Net	5,184,068	5,035,073
Total noncurrent assets	5,491,417	5,217,474
TOTAL ASSETS	\$ 8,385,304	\$ 7,590,069

Del Puerto Health Care District

Statements of Net Position (Continued)

<i>June 30,</i>	2018	2017
Current liabilities:		
Current portion of long-term debt	\$ 80,828	\$ 86,795
Accounts payable	124,794	160,236
Deposits held for others	534	1,798
Accrued compensation and related liabilities	137,397	118,103
Total current liabilities	343,553	366,932
Noncurrent liabilities:		
Long-term debt - less current portion	2,899,515	3,042,474
Total liabilities	3,243,068	3,409,406
Net position:		
Net investment in capital assets	2,203,725	1,905,804
Restricted for debt service	91,941	79,771
Unrestricted	2,846,570	2,195,088
Total net position	5,142,236	4,180,663
TOTAL LIABILITIES AND NET POSITION	\$ 8,385,304	\$ 7,590,069

Del Puerto Health Care District

Statements of Revenues, Expenditures, and Changes in Net Position

Years Ended June 30,	2018	2017
Operating revenue:		
Net patient service revenue	\$ 4,199,489	\$ 3,622,918
Other operating revenue	188,759	234,242
Total operating revenue	4,388,248	3,857,160
Operating expenses:		
Salaries and wages	2,138,196	2,016,632
Employee benefits	475,169	591,227
Professional fees	892,245	846,506
Purchased services	482,626	476,239
Supplies	176,380	162,966
Utilities	68,536	78,424
Rental and lease	9,411	10,498
Insurance	409,549	254,452
Repairs and maintenance	125,851	87,552
Depreciation	257,389	245,833
Other	204,650	195,757
Total operating expenses	5,240,002	4,966,086
Loss from operations	(851,754)	(1,108,926)
Nonoperating revenue (expenses):		
Property taxes	1,524,494	1,370,649
Impact mitigation fees	229,557	20,051
Rental income	164,995	162,661
Contributions	-	150,000
Grants	937	10,392
Interest earnings	2,287	1,229
Other income	11,353	14,319
Interest expense	(120,296)	(125,659)
Total nonoperating revenue	1,813,327	1,603,642
Excess of revenue over expenses	961,573	494,716
Net position - Beginning of year	4,180,663	3,685,947
Net position - End of year	\$ 5,142,236	\$ 4,180,663

Del Puerto Health Care District

Statements of Cash Flows

<i>Years Ended June 30,</i>	2018	2017
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 4,024,935	\$ 3,913,198
Receipts from other operating revenue	188,759	234,242
Payments to employee	(2,605,786)	(2,586,411)
Payments to suppliers	(2,425,715)	(2,059,590)
Net cash used in operating activities	(817,807)	(498,561)
Cash flows from noncapital financing activities:		
Property tax revenues	1,524,494	1,370,649
Impact mitigation fees	229,557	20,051
Other nonoperating revenue	177,285	189,170
Net cash provided by noncapital financing activities	1,931,336	1,579,870
Cash flows from capital and related financing activities:		
Principal payments on capital debt	(148,926)	(84,367)
Interest payments on capital debt	(120,296)	(125,659)
Purchase of capital assets	(406,384)	(55,735)
Net cash used in capital and related financing activities	(675,606)	(265,761)
Cash flows from investing activities:		
Net change in board designated cash and cash equivalents	(137,118)	(96,351)
Interest received	2,287	1,229
Net cash used in investing activities	(134,831)	(95,122)
Net increase in cash and cash equivalents	303,092	720,426
Cash and cash equivalents - Beginning of year	1,544,462	824,036
Cash and cash equivalents - End of year	\$ 1,847,554	\$ 1,544,462

Del Puerto Health Care District

Statements of Cash Flows (Continued)

Years Ended June30,	2018	2017
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (851,754)	\$ (1,108,926)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	257,389	245,833
Provision for uncollectible accounts	755,198	755,198
Change in operating assets and liabilities:		
Receivable:		
Patient accounts	(886,111)	(261,135)
Due from third-party payors	(43,641)	57,004
Inventory	(3,976)	2,240
Prepays	(14,333)	6,230
Accounts payable	(38,158)	44,334
Accrued compensation and related liabilities	7,579	21,448
Total adjustments	33,947	610,365
Net cash used in operating activities	(817,807)	(498,561)
Non-cash capital and investing activities:		
Contributions for capital assets	\$ -	\$ (150,000)

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 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. As part of the future growth plan, the District purchased a building in June 2016, which it currently operates and leases to 75% healthcare related tenants (gym, physical therapy, and orthodontics) until such time it may be needed for operational purposes.

Basis of Accounting

The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (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 resources measurement focus.

Use of Estimates in Preparation of Consolidated Financial Statements

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.

Cash Equivalents

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

Board Restricted Cash and Cash Equivalents

Noncurrent cash and cash equivalents include designated assets set aside by the Board of Directors for certain debt agreements, over which the Board of Directors 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)

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 statements of net position net of contractual adjustments and an allowance for doubtful accounts, which reflects management's 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.

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.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Capital Assets and Equipment

Property and equipment acquisitions are recorded at cost if purchased or, if donated, at acquisition 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 improvements	10 to 15 years
Buildings and improvements	10 to 40 years
Fixed and major moveable equipment	3 to 15 years
IT equipment and software	3 to 10 years

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue, expenses, and changes in net position. No impairment loss was recorded for the years ended June 30, 2018 and 2017.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position is reported in three categories:

Net investment in capital assets: This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build, acquire, or improve those assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category. Unspent portions of capital-related debt proceeds are not included in this category.

Restricted: This category consists of noncapital assets whose use is restricted reduced by liabilities and deferred inflows of resources related to those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This category consist of the remaining net position that does not meet the definition of the two preceding categories including amounts the Board has designated for specific purposes.

Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish 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.

Net Patient and Resident 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.

Revenue in Excess of Expenses

The accompanying statements of revenue, expenses, and changes in net position include 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.

Del Puerto Health Care District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Grants and Contributions

The District receives grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or capital purposes. Amounts that are unrestricted or are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue (expenses).

Advertising Costs

The District charges advertising costs to operations as incurred.

Tax Status

The District is a local agency of the State of California within the meaning of Section 56054 of the California Government Code. Accordingly, the District is exempt from federal income and state income, property, and franchise taxes.

Reclassifications

Certain reclassifications of 2017 amounts have been made in the accompanying financial statements to conform to the 2018 presentation.

Subsequent Events

Subsequent events have been evaluated through March 14, 2018, which is the date the financial statements were available to be issued.

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, 2018, the District had an uninsured and uncollateralized deposit balance of \$1,726,712. 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.

Del Puerto Health Care District

Notes to Financial Statements

Note 2: Cash and Cash Equivalents (Continued)

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

Under the terms of the USDA Rural Development loan, the District is required to maintain a separate debt service reserve equal to an average annual loan installment, which will be accumulated at the rate of one-tenth of the monthly payment until the required level is met. As of June 30, 2018, the District's restricted cash reserve balance is \$91,941.

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 by enterprise operation is as follows:

Health Care

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

Medi-Cal - Fee-For-Service and managed care patient encounters are reimbursed based on prospectively determined fee schedules per eligible visit.

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.

Ambulance

Medicare- Emergency Medical transport services are provided to Medicare beneficiaries under a fee-for-service rate. The rate is predetermined by the government and pays a set rate per transport plus mileage.

Medi-Cal- The District provides services to both fee-for-service and managed care beneficiaries. Fee-for-service transports are later settled through the Ground Emergency Medical Transport (GEMT) supplemental reimbursement which pays 50% of uncompensated cost. Medi-Cal transports provided to managed care beneficiaries are not eligible for the GEMT program.

Others- The District does not contract or enter payment agreements with any commercial insurance carriers, health maintenance organization or preferred provider organizations. However, most commercial insurance pays the amount they have independently determined as reasonable. The District must aggressively pursue full reimbursement from the third-party payor or balance bill the patient.

Del Puerto Health Care District

Notes to Financial Statements

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

Accounting for Contractual Arrangements

The District is reimbursed for Health Center cost 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 2017 by Medicare fiscal intermediaries and 2015 by Medi-Cal fiscal intermediaries.

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. 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.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RAC) to search for potentially inaccurate Medicare payments. RACs 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 will then have the opportunity to appeal the adjustment before final settlement of the claim is made.

The District's policy is to adjust revenue for decreases in reimbursement from the RAC reviews when these amounts are estimable and to adjust revenue for increases in reimbursement from the RAC reviews when the increase in reimbursement is agreed upon. As of June 30, 2018, the District had not been notified of any potential reimbursement adjustments.

Del Puerto Health Care District

Notes to Financial Statements

Note 4: Patient and Resident Accounts Receivable

Patient accounts receivable consisted of the following at June 30, 2018:

	Ambulance	Clinic	Total
Receivables from patients and their insurance carriers	\$ 704,453	\$ 42,003	\$ 746,456
Receivables from Medicare	107,753	36,013	143,766
Receivables from Medi-Cal	60,196	246,865	307,061
Total patient accounts receivable	872,402	324,881	1,197,283
Less:			
Allowance for contractual adjustments	(246,488)	(51,167)	(297,655)
Allowance for doubtful accounts	(216,022)	(14)	(216,036)
Net patient accounts receivables	\$ 409,892	\$ 273,700	\$ 683,592

Patient accounts receivable consisted of the following at June 30, 2017:

	Ambulance	Clinic	Total
Receivables from patients and their insurance carriers	\$ 538,308	\$ 53,142	\$ 591,450
Receivables from Medicare	49,644	23,474	73,118
Receivables from Medi-Cal	122,744	206,993	329,737
Total patient accounts receivable	710,696	283,609	994,305
Less:			
Allowance for contractual adjustments	(199,239)	(31,871)	(231,110)
Allowance for doubtful accounts	(196,320)	(3)	(196,323)
Net patient accounts receivables	\$ 315,137	\$ 251,735	\$ 566,872

Note 5: Accrued Compensation 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 for the years ended June 30, 2018 and 2017, were \$101,678 and \$96,290, respectively.

Del Puerto Health Care District

Notes to Financial Statements

Note 6: Capital Assets

Capital asset balances and activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Transfer/ Additions	Retirements	Balance June 30, 2018
Nondepreciable assets:				
Land	\$ 310,914	\$ -	\$ -	\$ 310,914
Construction in progress	4,000	323,589	-	327,589
Total nondepreciable capital assets	314,914	323,589	-	638,503
Depreciable assets:				
Buildings and leasehold improvements	4,927,190	-	-	4,927,190
Equipment	1,356,733	82,877	-	1,439,610
Total depreciable capital assets	6,283,923	82,877	-	6,366,800
Total capital assets before depreciation	6,598,837	406,466	-	7,005,303
Less - Accumulated depreciation for:				
Building and leasehold improvements	564,273	88,828	-	653,101
Equipment	999,491	168,643	-	1,168,134
Total accumulated depreciation	1,563,764	257,471	-	1,821,235
Total capital asset - Net	\$ 5,035,073	\$ 148,995	\$ -	\$ 5,184,068

Del Puerto Health Care District

Notes to Financial Statements

Note 6: Capital Assets (Continued)

Capital asset balances and activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Transfer/ Additions	Retirements	Balance June 30, 2017
Nondepreciable assets:				
Land	\$ 310,914	\$ -	\$ -	\$ 310,914
Construction in progress	-	4,000	-	4,000
Total nondepreciable capital assets	310,914	4,000	-	314,914
Depreciable assets:				
Buildings and leasehold improvements	4,927,190	-	-	4,927,190
Equipment	1,430,685	201,735	275,687	1,356,733
Total depreciable capital assets	6,357,875	201,735	275,687	6,283,923
Total capital assets before depreciation	6,668,789	205,735	275,687	6,598,837
Less - Accumulated depreciation for:				
Building and leasehold improvements	439,187	125,086	-	564,273
Equipment	1,154,431	120,747	275,687	999,491
Total accumulated depreciation	1,593,618	245,833	275,687	1,563,764
Total capital asset - Net	\$ 5,075,171	\$ (40,098)	\$ -	\$ 5,035,073

Del Puerto Health Care District

Notes to Financial Statements

Note 7: Long-Term Debt

A schedule of changes in the District's long-term debt obligations for 2018 follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
USDA note payable, 3.75% interest, monthly principal/interest payments of \$10,060; matures in 2040; secured by property	\$ 1,796,855	\$ -	\$ 54,261	\$ 1,742,594	\$ 53,948
Bank note payable, 4.25% interest, monthly principal/interest payments of \$7,442; matures in 2023; secured by property	1,332,414	-	94,665	1,237,749	26,880
Totals	\$ 3,129,269	\$ -	\$ 148,926	\$ 2,980,343	\$ 80,828

Del Puerto Health Care District

Notes to Financial Statements

Note 7: Long-Term Debt (Continued)

A schedule of changes in the District's long-term debt obligations for 2017 follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
USDA note payable, 3.75% interest, monthly principal/interest payments of \$10,060; matures in 2040; secured by property	\$ 1,848,636	\$ -	\$ 51,781	\$ 1,796,855	\$ 54,284
Bank note payable, 4.25% interest, monthly principal/interest payments of \$7,442; matures in 2023; secured by property	1,365,000	-	32,586	1,332,414	32,511
Totals	\$ 3,213,636	\$ -	\$ 84,367	\$ 3,129,269	\$ 86,795

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

	Principal	Interest	Total
2019	\$ 80,828	\$ 119,730	\$ 200,558
2020	93,789	116,236	210,025
2021	97,720	112,305	210,025
2022	101,662	108,363	210,025
2023	105,765	104,260	210,025
2024 - 2028	593,449	456,677	1,050,126
2029 - 2033	723,740	326,384	1,050,124
2034 - 2038	883,888	166,236	1,050,124
2039 - 2043	299,502	18,325	317,827
Totals	\$ 2,980,343	\$ 1,528,516	\$ 4,508,859

The District's loan agreements provide for various restrictive covenants.

Del Puerto Health Care District

Notes to Financial Statements

Note 8: Net Patient and Resident Service Revenue

Net patient service revenue consisted of the following for the year ended June 30, 2018:

	Ambulance	Clinic	Total
Gross patient service revenue	\$ 8,215,728	\$ 2,252,674	\$ 10,468,402
Less:			
Contractual allowances	5,666,746	(153,031)	5,513,715
Provision for uncollectible accounts	722,801	32,397	755,198
Net patient service revenue	\$ 1,826,181	\$ 2,373,308	\$ 4,199,489

Net patient service revenue consisted of the following for the year ended June 30, 2017:

	Ambulance	Clinic	Total
Gross patient service revenue	\$ 5,452,522	\$ 2,372,209	\$ 7,824,731
Less:			
Contractual allowances	3,566,533	140,869	3,707,402
Provision for uncollectible accounts	491,013	3,398	494,411
Net patient service revenue	\$ 1,394,976	\$ 2,227,942	\$ 3,622,918

Del Puerto Health Care District

Notes to Financial Statements

Note 8: Net Patient and Resident Service Revenue (Continued)

The following table reflects the percentage of gross patient service revenue by payor source for the year ended June 30, 2018:

	Ambulance	Clinic
Medicare	37.4 %	3.8 %
Medi-Cal	36.8	77.6
Other third-party payors	18.3	18.1
Self-pay	7.5	0.5
Totals	100.0 %	100.0 %

The following table reflects the percentage of gross patient service revenue by payor source for the year ended June 30, 2017:

	Ambulance	Clinic
Medicare	38.6 %	2.5 %
Medi-Cal	31.2	79.9
Other third-party payors	19.7	17.0
Self-pay	10.5	0.6
Totals	100.0 %	100.0 %

Note 9: Property Tax Revenue

The District received approximately 24.16% and 24.65% of its financial support from property taxes in the years ended June 30, 2018 and 2017, respectively. Property taxes are levied by the District and collected by the Stanislaus County Treasurer for operations. Taxes estimated to be collectible are recorded as revenue in the year of the levy. No allowance for doubtful taxes receivable is considered necessary. Taxes levied are recorded as nonoperating revenue and are intended to finance the District's activities of the same fiscal year. Amounts of tax levied are based on assessed property values as of the first day of January for the fiscal year for which the taxes are levied.

The funds used to support operations were \$1,524,494 and \$1,370,649 for the years ended June 30, 2018 and 2017, respectively.

Del Puerto Health Care District

Notes to Financial Statements

Note 10: 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 has a sliding scale fee discount program based on the Federal Poverty Scale determined by patient household size and income. 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.

Note 11: 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.

Del Puerto Health Care District

Notes to Financial Statements

Note 12: 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 who are involved in diverse activities, are subject to differing economic conditions, and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2018 and 2017, was as follows:

	2018	2017
Medicare	12 %	8 %
Medi-Cal	26 %	33 %
Other third-party payors	44 %	39 %
Self-pay	18 %	20 %
Totals	100 %	100 %

Note 13: 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, 2018 and 2017, 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 years ended June 30, 2018 and 2017, were \$9,411 and \$10,498, respectively. Future minimum lease payments for succeeding years under operating leases with remaining terms in excess of one year as of June 30, 2018 and 2017, were 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.

Del Puerto Health Care District

Notes to Financial Statements

Note 14: 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 also has an optional program which matches employee contributions of up to 6 percent of their wages at a rate of 50 percent. The maximum contribution by the District is an additional 3 percent. The District's contributions become fully vested after five years of continuous service. The District's pension expense for the plan was \$57,796 and \$53,817 for the years ended June 30, 2018 and 2017, respectively.

Note 15: Collective Bargaining Agreement

The District has a collective bargaining agreement covering certain employees within its ambulance services (approximately 27 employees). The contract covering EMTs and paramedics expired on March 30, 2016 and subsequent attempts to reach agreements in 2016 and 2017 failed. Negotiations for a successor contract were in process at the date the financial statements were available to be issued.