Audited Financial Statements

WEST SIDE
HEALTH CARE DISTRICT

JWT & Associates, LLP
June 30, 2017

Audited Financial Statements

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Management's Discussion and Analysis

WEST SIDE HEALTH CARE DISTRICT

June 30, 2017

The management of the West Side Health Care District (the District) has prepared this annual discussion and analysis in order to provide an overview of the District's performance for the fiscal year ended June 30, 2017 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments.* The intent of this document is to provide additional information on the District's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2017 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets decreased by $354,389 from the fiscal year ended June 30, 2016.
- Total cash and cash equivalents for operations decreased by $1,035,908 over the prior year. Capital assets increased by a net $510,313 over the prior year.
- Net patient accounts receivable were at $469,999 as collections averaged approximately 35% of gross patient revenues. Net days in patient accounts receivable were 96.43 at June 30, 2017.
- Current assets decreased by $864,702 from the prior fiscal year while current liabilities decreased by $73,805 from the prior fiscal year. This resulted in a current ratio of 31.4 to 1 where as the industry norm is around 2 to 1.
- Operating revenues decreased by $772,301 as the prison contract revenue dropped by $993,102.
- Operating expenses decreased by $878,993 due mainly to the large decreases in the prison contract revenues.
- The decrease in net position (or loss for the year) was $(280,584).

Cash and Investments

For the fiscal year ended June 30, 2017, the District's operating cash and cash equivalents and short-term investments totaled $9,431,025 as compared to $10,693,703 in fiscal year 2016. At June 30, 2017, days cash on hand was 902 as compared to industry goals of 100 days cash on hand. The majority of the District's cash is deposited with local banks and in the local agency investment fund or LAIF with the State of California.

Current Liabilities

As previously noted, current liabilities of the District decreased by $73,805. The significant changes were related to decreases in accounts payable and accrued expenses of $88,738, directly related to service decreases, and increases in accrued payroll and related liabilities of $14,933.

Capital Assets

During the year, the District reinvested into the facility $617,212 in various building and equipment purchases, while experiencing depreciation expense of $106,899 for a net gain of $510,313. The District has $706,050 in construction-in-progress at June 30, 2017 representing capitalized costs for various expansion and remodel projects.

Volumes

- Total outpatient care visits for the year were 15,536 for the year ended June 30, 2017 for an average of 42.56 a day. Visits in 2016, 2015, 2014, 2013, 2012, and 2011 were 14,657,12,119, 11,420, 8,332, 9,335, and 8,601, respectively.

Patient Revenues

Gross Patient Charges: The District charges all its patients equally based on its established pricing structure for the services rendered. The charge master is evaluated on an ongoing basis to ensure that all only allowable charges are billed to comply with Medicare and Medi-cal regulations.

Deductions From Revenue: Deductions from revenue are deductions based on the difference between (1) gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal and other third party payors such as Blue Cross, and (2) provisions for bad debts on self-pay financial classes.

Deductions from revenue (as a percentage of gross patient service charges) were 58.07% for fiscal year 2017. The deductions from revenue decreased from the prior year due to the new PPS rate for the Medi-Cal rural health clinic charges and reimbursement.

Net Patient Service Revenues: Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues were $1,779,001 for 2017 as compared to $1,248,548 in fiscal year 2016.

Operating Expenses

Total operating expenses were $3,924,219 for 2017 as compared to $4,803,212 for 2016. The following changes were noteworthy:

- A $336,516 decrease in salaries, wages and benefits due mainly to a decrease in FTE's for the year.
- A decrease of $227,615 in professional fees due mainly to the decrease in the prison contract service.
- A decrease of $80,536 in supplies due to the reasons mentioned above.
- A decrease of $64,857 in purchased services and repairs and maintenance for a variety of reasons.
- All other expenses were generally comparable to the prior year as they tend to be more "fixed" in nature.

Economic Factors and Next Fiscal Year's Budget

The District's Board approved the fiscal year July 1, 2017 through June 30, 2018 budget at the June, 2017 Board meeting. For fiscal year 2018, the District has budgeted a net income of approximately $91,500. The significant contributing factors to this budgeted income are:

- The District tax revenues should stabilize somewhat as compared to the 2017 level. The District is budgeting increases in net patient revenues due to the new reimbursement rates of the rural health clinic. Total revenues are budgeted at approximately $4.2 million.
- Expenses are budgeted at approximately $4.1 million for 2018.

In January, 2017 the District received designation as a Rural Health Clinic for their outpatient care services and is looking forward to expanding these services in the near future. In addition, the District is currently seeking long-term funding in order to expand the District's facilities according to the master plan presented to the public.

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Report of Independent Auditors

The Board of Directors
West Side Health Care District
Taft, California

We have audited the accompanying financial statements of the West Side Health Care District, (the District) which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 at June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

JWT & Associates, LLP

Fresno, California
December 8, 2017

Balance Sheets

WEST SIDE HEALTH CARE DISTRICT

	June 30	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 5,840,697	$ 6,876,605
Short-term investments	3,590,328	3,817,098
Patient accounts receivable, net	469,999	101,273
Grant and other receivables	218,475	458,564
Estimated third party payor settlements	280,000	
Prepaid expenses and other current assets	34,453	45,114
Total current assets	10,433,952	11,298,654
Capital assets, net of accumulated depreciation	2,774,308	2,263,995
	$ 13,208,260	$ 13,562,649
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 193,592	$ 282,330
Accrued payroll and related liabilities	138,682	123,749
Total current liabilities	332,274	406,079
Net position		
Invested in capital assets	2,774,308	2,263,995
Unrestricted	10,101,678	10,892,575
Total net position	12,875,986	13,156,570
	$ 13,208,260	$ 13,562,649

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

WEST SIDE HEALTH CARE DISTRICT

	Year Ended June 30	
	2017	2016
Operating revenues		
Net patient service revenue	$ 1,779,001	$ 1,248,548
Prison contract revenues	655,457	1,948,559
Rental income	9,600	9,600
Other operating revenue	17,880	27,532
Total operating revenues	2,461,938	3,234,239
Operating expenses		
Salaries and wages	1,289,749	1,507,705
Employee benefits	319,752	438,312
Professional fees	1,577,487	1,805,102
Supplies	161,011	241,547
Purchased services	139,361	233,301
Repairs and maintenance	113,220	84,137
Rents and operating leases	9,051	8,934
Utilities and phone	52,020	38,029
Insurance	67,831	75,245
Depreciation and amortization	106,899	111,015
Travel, meetings and conferences	18,237	27,009
Other operating expenses	69,601	232,876
Total operating expenses	3,924,219	4,803,212
Operating loss	(1,462,281)	(1,568,973)
Nonoperating revenues		
District tax revenues	1,143,351	1,634,819
Investment income	38,346	17,520
Total nonoperating revenues	1,181,697	1,652,339
Increase (decrease) in net position	(280,584)	83,366
Net position at beginning of the year	13,156,570	13,073,204
Net position at end of the year	$ 12,875,986	$ 13,156,570

See accompanying notes and auditor's report

Statements of Cash Flows

WEST SIDE HEALTH CARE DISTRICT

	Year Ended June 30	
Cash flows from operating activities:	2017	2016
Cash received from patients and third-parties on behalf of patients	$ 1,130,275	$ 1,281,921
Cash received from prison contract and other operating sources	923,026	1,744,879
Cash payments to suppliers and contractors	(2,605,648)	(3,034,366)
Cash payments to employees and benefit programs	(1,274,816)	(1,476,411)
Net cash (used in) operating activities	(1,827,163)	(1,483,977)
Cash flows from noncapital financing activities:		
District tax revenues	1,143,351	1,634,819
Net cash provided by noncapital financing activities	1,143,351	1,634,819
Cash flows from capital financing activities:		
Purchase and transfer of capital assets, net of disposals	(617,212)	(353,445)
Net cash (used in) capital financing activities	(617,212)	(353,445)
Cash flows from investing activities:		
Change in short-term investments	226,770	(12,784)
Investment income	38,346	17,520
Net cash provided by investing activities	265,116	4,736
Net increase in cash and cash equivalents	(1,035,908)	(197,867)
Cash and cash equivalents at beginning of year	6,876,605	7,074,472
Cash and cash equivalents at end of year	$ 5,840,697	$ 6,876,605
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss)	$ (1,462,281)	$ (1,568,973)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	106,899	111,015
Provision for bad debts	210,978	226,538
Changes in operating assets and liabilities:		
Patient accounts receivables, net	(579,704)	(193,165)
Grants and other receivables	240,089	(240,812)
Estimated third party payor settlements	(280,000)	
Prepaid expenses and current assets	10,661	(21,789)
Accounts payable and accrued expenses	(88,738)	171,915
Accrued payroll and related liabilities	14,933	31,294
Net cash provided by (used in) operating activities	$ (1,827,163)	$ (1,483,977)

See accompanying notes and auditor's report

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: The West Side Health Care District (the District) is a public entity organized under Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the boundaries of the health care district to specified terms of office. The District owns and operates an outpatient clinic facility located in Taft, California, through which it provides health care services primarily to individuals who reside in the local geographic area. The District also recruits and retains clinical professionals which they then sub-contract to the City of Taft to fulfill the City's obligation under a contract with the Department of Corrections.

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be central to the provision of health care services are reported as operational revenues and expenses.

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

Cash and Cash Equivalents: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

Short -Term Investments: Short-term investments are funds invested local banks and in the State of California's administered Local Agency Investment fund (LAIF). The State invests transferred funds from various political subdivisions within the State into various government secured investment pools with readily determinable fair values and therefore the District's short-term investments are measured at fair value at June 30, 2017 and 2016. Investment income or losses (including realized and unrealized gains and losses on investments, interest and dividends) are included in nonoperating revenues under investment income.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 3 to 40 years, depending upon the capital asset classification.

Compensated Absences: The District's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities (PTO) as of June 30, 2017 and 2016 was $73,755 and $54,966, respectively.

Net Position: Net position can be presented in three categories. The first category is net position "invested in capital assets, net of related debt". This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is "restricted" net position. This category consists of externally designated constraints placed on those net position by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is "unrestricted" net position. This category consists of net position that does not meet the definition or criteria of the previous two categories.

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

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Charity Care: The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off as an adjustment to net patient service revenues

District Tax Revenues: The District receives much of its financial support from parcel taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Parcel taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Parcel taxes are considered delinquent on the day following each payment due date.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

Statements of Cash Flows: For purposes of the statements of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2017 and 2016, the District had deposits invested in various financial institutions in the form of cash and cash equivalents in the amounts of $5,839,397 and $7,125,306 respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for $250,000 per account that is federally insured.

The CGC and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits. Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

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

NOTE C - SHORT-TERM INVESTMENTS AND INVESTMENT POLICY

The District's investment policy authorizes investments in the LAIF investment pool administered by the State of California. The State's Treasurer's Office reports its investments at fair market value. The fair market value of investments in the State Treasurer's pooled investment program, including LAIF, is generally based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all the investments held against carrying cost. These valuations and financial statements are posted to the State Treasurer's Office website. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

The policy also authorizes short-term investments deposited with local banks in cash and cash equivalents (sweep accounts). These are also stated at fair value at June 30, 2017 and 2016. Short-term investments as of June 30, 2017 and 2016 were comprised of the following:

	2017	2016
Cash and cash equivalents with a bank		$ 250,000
Various pooled investments in LAIF	$ 3,590,328	3,567,098
	$ 3,590,328	$ 3,817,098

NOTE D - NET PATIENT SERVICE REVENUES

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

Medicare: Payments for rural health care services rendered to Medicare beneficiaries are paid on an interim rate during the year with final settlement based on cost report submission.

Medi-Cal: For Medi-Cal services are paid on a "PPS" rate for rural health care services rendered to Medi-Cal beneficiaries with final settlement based on the PPS reconciliation process.

Other: Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

NOTE D - NET PATIENT SERVICE REVENUES - continued

Net patient service revenues percentages for the years ended June 30, 2017 and 2016 are summarized below:

	2017	2016
Medicare	8%	9%
Medi-Cal (traditional and managed care)	63%	61%
Other third party payors	25%	25%
Self pay and other	4%	5%
Gross patient service revenues	100%	100%
Less deductions from revenue and related allowances	(58%)	(65%)
Net patient service revenues	42%	35%

Medicare and Medi-Cal revenue accounts for approximately 70% of the District's net patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE E - CONCENTRATION OF CREDIT RISK

Patient Accounts Receivable - The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration percentages of patient accounts receivable at June 30, 2017 and 2016 were as follows:

	2017	2016
Medicare	14%	20%
Medi-Cal (traditional and managed care)	70%	34%
Other third party payors	11%	37%
Self pay and other	5%	9%
Gross patient accounts receivable	100%	100%

NOTE E - CONCENTRATION OF CREDIT RISK - continued

District Tax Revenues - The District receives approximately 32% of their revenues from Kern County under the parcel taxing program. These funds are used to support the operations of the District in providing healthcare to the local region. Parcel taxes are levied by the County on the District's behalf during the year. Parcel taxes are secured by properties within the District and because of this feature, management believes that there is no credit risk associated with these parcel taxes once an assessment has been made. Many of parcels with the District are assessed based upon oil reserves within each parcel and the assessed value is therefore contingent upon the price of oil in the market at the time of assessment. It is because of these market conditions that district tax revenues can vary widely from year-to-year.

NOTE F - OTHER RECEIVABLES

Other receivables as of June 30, 2017 and 2016 were comprised of the following:

	2017	2016
Accrued prison contract receivable due from the City of Taft	$ 175,857	$ 458,564
Kern County district taxes and other	42,618	
	$ 218,475	$ 458,564

NOTE G - RETIREMENT PLANS

The District, beginning July 1, 2015, offers a deferred compensation plan (the Plan) to eligible employees. The Plan allows participants to defer income during peak years and set it aside as retirement savings. The employee funds set aside are pre-tax dollars and therefore reduce the amount of current income taxable to the employee. The District has established certain requirements in order for employees to qualify for the Plan. All contributions are voluntary by the employee and they are 100% vested at inception

NOTE H - CAPITAL ASSETS

Capital assets as of June 30, 2017 and 2016 were comprised of the following:

	Balance at June 30, 2016	Transfers & Additions	Retirements	Balance at June 30, 2017
Land and land improvements	$ 182,174	$ 214,144		$ 396,318
Buildings and improvements	2,094,883	845		2,095,728
Furniture and equipment	451,731	2,997		454,728
Construction-in-progress	306,824	399,226		706,050
Totals at historical cost	3,035,612	617,212		3,652,824
Less accumulated depreciation	(771,617)	(106,899)		(878,516)
Capital assets, net	$ 2,263,995	$ 510,313	$	$ 2,774,308

	Balance at June 30, 2015	Transfers & Additions	Retirements	Balance at June 30, 2016
Land and land improvements	$ 182,174			$ 182,174
Buildings and improvements	2,094,883			2,094,883
Furniture and equipment	362,726	$ 89,005		451,731
Construction-in-progress	42,384	264,440		306,824
Totals at historical cost	2,682,167	353,445		3,035,612
Less accumulated depreciation	(660,602)	(111,015)		(771,617)
Capital assets, net	$ 2,021,565	$ 242,430	$	$ 2,263,995

Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements, and 3 to 20 years for furniture and equipment.

NOTE I - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2017, the District has $706,050 recorded as construction in progress which are commitments under way at year end for various expansion and other projects for various remodeling and major repair on the District's premises. No interest has been capitalized into these various projects as of June 30, 2017.

Operating Leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2017 and 2016, were $9,051 and $8,934, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2017 and 2016 are not considered material. District lease or rent agreements that have initial or remaining lease terms in excess of one year, again, are not considered material.

Litigation: The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2017 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Medical Malpractice Insurance: The District maintains commercial malpractice liability insurance coverage under a claims made and reported policy covering losses up to $1 million per claim and $3 million in the annual aggregate, with a per claim deductible of $5,000. The District plans to maintain the insurance coverage by renewing its current policy, or by replacing it with equivalent insurance.

Workers Compensation Program: The District is a participant in the Association of California Hospital District's Alpha Fund (the Fund) which administers a self-insured worker's compensation plan for participating entity employees of its member entities. The District pays premiums to the Fund which are adjusted annually. If participation in the Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the Fund.

Regulatory Environment: The District is subject to several laws and regulations. These laws and regulations include matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to possible violations of statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with all applicable government laws and regulations and is not aware of any future actions or unasserted claims for the years ended June 30 2017 and 2016.

NOTE J -INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2017 and 2016:

		Investment Maturities in Years		
As of June 30, 2017	Fair Value	Less than 1	1 to 5	Over 5
Local agency investment fund	$ 3,590,328	$ 3,590,328		
Total investments	$ 3,590,328	$ 3,590,328	$ -0-	$ -0-

		Investment Maturities in Years		
As of June 30, 2016	Fair Value	Less than 1	1 to 5	Over 5
Savings and cash equivalents	$ 250,000	$ 250,000		
Local agency investment fund	3,567,098	3,567,098		
Total investments	$ 3,817,098	$ 3,817,098	$ -0-	$ -0-

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally set to mature within a few months. Policies generally identify certain provisions which address interest rate risk, credit risk and concentration of credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways an entity manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

Credit Risk: Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody's Investor Service, Inc. Generally an entity's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of $500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

NOTE J -INVESTMENTS (continued)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), an entity would not be able to recover the value of its investment or collateral securities that are in the possession of another party. An entity's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. An entity's investment policy generally allows for different concentrations in selected investment portfolios such as government-backed securities, which are deemed to be lower risk.

NOTE K - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through December 8, 2017, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.