



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Board of Directors
Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Yucca Valley, California

We have audited the financial statements of Hi-Desert Memorial Health Care District doing business as Morongo Basin Healthcare District (the District) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 9, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The application of existing policies was not changed during the year ended June 30, 2016.

Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements and Application* was adopted during the year ended June 30, 2016. The adoption of this statement has no impact on the change in net position.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 District's financial statements were:

- Allowances for uncollectible accounts and contractual adjustments – estimates for the allowances for uncollectible accounts and contractual adjustments are based on experience, third-party payor collections history and agreed rates, and an analysis of the collectability of individual accounts.
- Estimated third-party payor settlements – estimates related to third-party payor settlements are based on cost reports and correspondence with third-party payors related to settlements for current and prior periods.

We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts and contractual adjustments and estimated third-party payor settlements in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The completion of the audit was delayed due to the additional time it took for management to prepare for the audit and the material audit adjustments necessary to complete the audit. The District experienced a major change in operations and accounting systems and turnover in accounting personnel.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: revenues from discontinued hospital operations, lease revenue from hospital real property and fixed equipment, capital assets, and third-party payor settlements. The following immaterial misstatements detected as a result of audit procedures were corrected by management: net assets, the allowance for uncollectible accounts, and investments.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that 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 March 3, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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 a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
March 3, 2017