



DESERT HEALTHCARE DISTRICT
Finance, Legal, Administration, & Real Estate Committee
October 11, 2022

The Finance, Legal, Administration, & Real Estate Committee of the Desert Healthcare District will be held at 3:30 PM, Tuesday, October 11, 2022, via Zoom using the following link:

<https://us02web.zoom.us/j/83013702193?pwd=Tk55cHZSVGJCUU1PdZlE3UFRmc0JoQT09>
Password: 999856

Participants will need to download the Zoom app on their mobile devices. Members of the public may also be able to participate by telephone, using the following dial in information:

Dial in #:(669) 900-6833 or (888) 788-0099 to Listen and Address the Board when called upon:
Webinar ID: 830 1370 2193
Password: 999856

AGENDA

I. CALL TO ORDER

II. APPROVAL OF AGENDA

III. PUBLIC COMMENT

At this time, comments from the audience may be made on items not listed on the agenda that are of public interest and within the subject-matter jurisdiction of the District. The Committee has a policy of limiting speakers to not more than three minutes. The Committee cannot take action on items not listed on the agenda. Public input may be offered on an agenda item when it comes up for discussion and/or action.

IV. APPROVAL OF MINUTES

1. F&A Meeting Minutes – September 13, 2022 – Pg. 3-5

ACTION

V. CEO REPORT

Information

VI. CHIEF ADMINISTRATION OFFICER'S REPORT – Pg. 6

Information

1. LPMP Leasing Update – Pg. 7

VII. FINANCIAL REPORTS

ACTION

1. District and LPMP Financial Statements – Pg. 8-18
2. Accounts Receivable Aging Summary – Pg. 19
3. District - Deposits – Pg. 20
4. District - Property tax receipts – Pg. 21
5. LPMP – Deposits – Pg. 22-23
6. District – Check Register – Pg. 24-25
7. Credit Card – Detail of Expenditures – Pg. 26
8. LPMP – Check Register – Pg. 27
9. Retirement Protection Plan Update – Pg. 28
10. Grant Payment Schedule – Pg. 29

VIII. OTHER MATTERS

1. Shannon Maidment & Andrea Oliveri – Coachella Valley Accounting & Auditing –
FY 2022 Audit Reports – District & RPP
 - a. Communication Letter & Internal Controls Report – Pg. 30-36
 - b. District Audit Report – Pg. 37-79

ACTION



DESERT HEALTHCARE DISTRICT
Finance, Legal, Administration, & Real Estate Committee
October 11, 2022

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| c. RPP Audit Report – Pg. 80-99 | |
| d. Desert Healthcare Foundation & A-133 Single Audit (Informational Purposes Only, Approval during the Foundation's F&A Committee meeting) – Pg. 100-128 | |
| 2. Amendment #1 to the consulting services agreement – NPO Centric – no cost time extension 10/01/22 – 9/30/23 – Pg. 129-139 | ACTION |
| 3. LPMP – Lease Renewal – Pathway Pharmaceuticals, Inc. – Suite 1W 101 – 5-year lease renewal – Pg. 140-162 | ACTION |

The undersigned certifies that on October 06, 2022, I posted a copy of this agenda in the front entrance to the Desert Healthcare District offices located at 1140 North Indian Canyon Drive, Palm Springs, California. I also caused a copy of this agenda posting in the front entrance of the Desert Healthcare District office located at the Regional Access Project Foundation, 41550 Eclectic Street, Suite G100, Palm Desert California.

If you have any disability which would require accommodation to enable you to participate in this meeting, please email Andrea S. Hayles, Special Assistant to the CEO and Board Relations Officer, at ahayles@dhcd.org or call (760) 567-0298 at least 24 hours prior to the meeting.

Andrea S. Hayles

Andrea S. Hayles, Board Relations Officer

**DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 13, 2022**

Directors Present	District Staff Present	Absent
President Karen Borja Director Les Zendle, MD Director Leticia De Lara	Chris Christensen, Chief Administration Officer Eric Taylor, Accounting Manager Donna Craig, Chief Program Officer Alejandro Espinoza, Chief of Community Engagement Andrea S. Hayles, Board Relations Officer	Chair/Treasurer Arthur Shorr Conrado E. Bárzaga, MD, Chief Executive Officer

AGENDA ITEMS	DISCUSSION	ACTION
I. Call to Order	President Borja called the meeting to order at 3:33 p.m. in chair Shorr's absence. Director De Lara attended the meeting in chair Shorr's absence.	
II. Approval of Agenda	President Borja asked for a motion to approve the agenda.	Moved and seconded by Director De Lara and Director Zendle to approve the agenda. Motion passed unanimously.
III. Public Comment	There was no public comment.	
IV. Approval of Minutes 1. F&A Minutes – Meeting July 12, 2022	President Borja motioned to approve the July 12, 2022, meeting minutes.	Moved and seconded by Director De Lara (Abstain) and Director Zendle to approve the July 12, 2022, meeting minutes. Motion passed unanimously.
V. CEO Report	There was no CEO Report.	
VI. Chief Administration Officer's Report	Chris Christensen, CAO, provided an update on the FY 2022 annual audit for the District, Foundation, the single-audit Foundation, and the Retirement Protection Plan, which will be presented to the committee in October for submission to and approval of the Board.	

**DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
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	<p>The Foundation received a \$10k bequest from the Elynor and David Falk Trust – among 30 other organizations listed as beneficiaries.</p> <p>The committee discussed and requested that Staff consider ways of using the funds to honor the donor’s memory for presenting to the Program Committee.</p> <p>The Las Palmas Medical Plaza is at 100% capacity with 5 anticipated renewals in FY2023.</p>	
<p>VII. Financial Reports</p> <ol style="list-style-type: none"> District and LPMP Financial Statements Accounts Receivable Aging Summary District – Deposits District – Property Tax Receipts LPMP Deposits District – Check Register Credit Card – Detail of Expenditures LPMP – Check Register Retirement Protection Plan Update Grant Payment Schedule 	<p>Chris Christensen, CAO, reviewed the financials with the committee highlighting the first two months of the fiscal year with limited variance activity, describing the \$2.3M of the grant carryover funds, and an overview of the A/R aging summary. There are two fewer participants in the Retirement Protection Plan, and \$6.3M is available for grant awards as illustrated in the grant payment schedule.</p>	<p>Moved and seconded by Director Zendle and Director De Lara to approve the July and August 2022 Preliminary financials – items 1-10 and to forward to the Board for approval.</p> <p>Motion passed unanimously.</p>
<p>VIII. Other Matters</p> <ol style="list-style-type: none"> Amendment #4 to the Kaufman Hall Associates July 18, 2019, Engagement Letter – Effective September through December 2022 – \$75,000 per month, plus expenses 	<p>Chris Christensen, CAO, described the work with Kaufman Hall on the lease renewal and the seismic retrofit. Amendment #3 terminated in July with no charge in August since the</p>	<p>Moved and seconded by Director Zendle and Director De Lara to approve Amendment #4 to the Kaufman Hall Associates July 18, 2019, Engagement Letter – Effective September through December 2022 – \$75,000 per</p>

**DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 13, 2022**

	<p>District is dark, requesting approval of an extension for September – December 2022, which is included in the FY2023 annual budget.</p> <p>Mr. Christensen explained that staff is working with the IT consultant, Harry Slack, to develop internal control processes for data sharing with the county to strengthen the processes and security for approximately \$9k – presenting at the October committee meeting for approval.</p>	<p>month, plus expenses and forward to the Board for approval. Motion passed unanimously.</p>
IX. Adjournment	<p>President Borja adjourned the meeting at 4:04 p.m.</p>	<p>Audio recording available on the website at http://dhcd.org/Agendas-and-Documents</p>

ATTEST: _____
 Karen Borja, President, Board of Directors
 Finance & Administration Committee Member
 Desert Healthcare District Board of Directors

Minutes respectfully submitted by Andrea S. Hayles, Board Relations Officer



Chief Administration Officer's Report

October 11, 2022

The Fiscal Year 2022 draft audit reports are being presented by Coachella Valley Accounting & Auditing at today's committee meeting.

Las Palmas Medical Plaza - Property Management:

Occupancy:

See attached unit rental status report.

100% currently occupied –

Total annual rent including CAM fees is **\$1,427,699**.

Leasing Activity:

Lease renewal for Suite 1W-101 (Pathway Pharmaceuticals, Inc.) is in the packet for review and approval.

Las Palmas Medical Plaza													
Unit Rental Status													
As of October 1, 2022													
Unit	Tenant Name	Deposit	Lease Dates		Term	Unit Sq Feet	Percent of Total	Monthly Rent	Annual Rent	Rent Per Sq Foot	Monthly CAM	Total Monthly Rent Inclg CAM	Total Annual Rent Inclg CAM
			From	To							\$ 0.69		
Total - Vacancies						0	0.00%						
Total Suites - 31 - 31 Suites Occupied		\$64,959.90				49,356	100.0%	\$ 85,060.07	\$ 1,020,720.84	\$ 1.72	\$ 33,914.88	\$ 118,974.95	\$ 1,427,699.40
		Summary - All Units											
		Occupied	49,356	100.0%									
		Vacant	0	0.0%									
		Pending	0	0.0%									
		Total	49,356	100%									

DESERT HEALTHCARE DISTRICT
SEPTEMBER 2022 FINANCIAL STATEMENTS
INDEX
Year to Date Variance Analysis
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Deposit Detail - LPMP
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Credit Card Expenditures
Check Register - LPMP
Retirement Protection Plan Update
Grants Schedule

DESERT HEALTHCARE DISTRICT				
YEAR TO DATE VARIANCE ANALYSIS				
ACTUAL VS BUDGET				
THREE MONTHS ENDED SEPTEMBER 30, 2022				
Scope: \$25,000 Variance per Statement of Operations Summary				
	YTD		Over(Under)	
Account	Actual	Budget	Budget	Explanation
4000 - Income	\$ (762,586)	\$ (168,999)	\$ (593,587)	Lower interest income and market fluctuations (net) from FRF investments \$623k; higher property tax revenues \$27k; higher various \$2k
5000 - Direct Expenses	\$ 333,579	\$ 455,760	\$ (122,181)	Lower wage related expenses \$56k due to open positions; lower board expenses \$38k; lower health insurance expense \$15k; lower education expense \$15k; higher retirement expense \$2k
7000 - Grants Expense	\$ 15,000	\$ 999,999	\$ (984,999)	Budget of \$4 Million for fiscal year is amortized straight-line over 12-month fiscal year. As of September 30, 2022, there is \$4 million remaining in the fiscal year grant budget as well as \$1,137,298 in carryover funds.

Desert Healthcare District
Profit & Loss Budget vs. Actual
July through September 2022

	MONTH			TOTAL		
	Sep 22	Budget	\$ Over Budget	Jul - Sep 22	Budget	\$ Over Budget
Income						
4000 • Income	(638,581)	(56,333)	(582,248)	(762,586)	(168,999)	(593,587)
4500 • LPMP Income	118,903	112,999	5,904	353,825	338,997	14,828
4501 • Miscellaneous Income	(1,500)	750	(2,250)	0	2,250	(2,250)
Total Income	(521,178)	57,416	(578,594)	(408,761)	172,248	(581,009)
Expense						
5000 • Direct Expenses	153,123	151,920	1,203	333,579	455,760	(122,181)
6000 • General & Administrative Exp	46,827	46,245	582	123,406	138,735	(15,329)
6325 • CEO Discretionary Fund	0	2,083	(2,083)	10,000	6,249	3,751
6445 • LPMP Expenses	85,525	94,176	(8,651)	270,790	282,528	(11,738)
6500 • Professional Fees Expense	167,174	89,019	78,155	282,428	267,057	15,371
6700 • Trust Expenses	5,458	6,021	(563)	21,175	18,063	3,112
Total Expense Before Grants	458,107	389,464	68,643	1,041,377	1,168,394	(127,017)
7000 • Grants Expense	0	333,333	(333,333)	15,000	999,999	(984,999)
Net Income	(979,285)	(665,381)	(313,904)	(1,465,138)	(1,996,145)	531,007

Desert Healthcare District
Profit & Loss Budget vs. Actual
 July through September 2022

			MONTH			TOTAL		
			Sep 22	Budget	\$ Over Budget	Jul - Sep 22	Budget	\$ Over Budget
Income								
4000 - Income								
	4010 - Property Tax Revenues		3,382	0	3,382	27,553	0	27,553
	4200 - Interest Income							
	4220 - Interest Income (FRF)		54,307	75,000	(20,693)	240,958	225,000	15,958
	9999-1 - Unrealized gain(loss) on invest		(700,270)	(133,333)	(566,937)	(1,039,097)	(399,999)	(639,098)
	Total 4200 - Interest Income		(645,963)	(58,333)	(587,630)	(798,139)	(174,999)	(623,140)
	4300 - DHC Recoveries		4,000	2,000	2,000	8,000	6,000	2,000
	Total 4000 - Income		(638,581)	(56,333)	(582,248)	(762,586)	(168,999)	(593,587)
	4500 - LPMP Income		118,903	112,999	5,904	353,825	338,997	14,828
	4501 - Miscellaneous Income		(1,500)	750	(2,250)	0	2,250	(2,250)
Total Income			(521,178)	57,416	(578,594)	(408,761)	172,248	(581,009)
Expense								
5000 - Direct Expenses								
	5100 - Administration Expense							
	5110 - Wages Expense		130,016	121,344	8,672	292,116	364,032	(71,916)
	5111 - Allocation to LPMP - Payroll		(6,363)	(5,470)	(893)	(19,089)	(16,410)	(2,679)
	5112 - Vacation/Sick/Holiday Expense		27,424	11,667	15,757	64,815	35,001	29,814
	5114 - Allocation to Foundation		(27,936)	(27,936)	0	(83,808)	(83,808)	0
	5119 - Allocation-FED FUNDS/CVHIP-DHCF		(15,849)	(13,823)	(2,026)	(49,342)	(41,469)	(7,873)
	5120 - Payroll Tax Expense		10,032	9,633	399	25,941	28,899	(2,958)
	5130 - Health Insurance Expense							
	5131 - Premiums Expense		19,671	21,576	(1,905)	52,923	64,728	(11,805)
	5135 - Reimb./Co-Payments Expense		704	1,950	(1,246)	2,375	5,850	(3,475)
	Total 5130 - Health Insurance Expense		20,375	23,526	(3,151)	55,298	70,578	(15,280)
	5140 - Workers Comp. Expense		963	399	564	1,733	1,197	536
	5145 - Retirement Plan Expense		12,166	8,895	3,271	28,753	26,685	2,068
	5160 - Education Expense		(1,620)	7,083	(8,703)	5,835	21,249	(15,414)
	Total 5100 - Administration Expense		149,208	135,318	13,890	322,252	405,954	(83,702)
	5200 - Board Expenses							
	5210 - Healthcare Benefits Expense		1,092	1,096	(4)	3,284	3,288	(4)
	5230 - Meeting Expense		(580)	2,667	(3,247)	2,845	8,001	(5,156)
	5235 - Director Stipend Expense		3,250	3,465	(215)	4,720	10,395	(5,675)
	5240 - Catering Expense		0	833	(833)	325	2,499	(2,174)
	5250 - Mileage Reimbursement Expense		153	208	(55)	153	624	(471)
	5270 - Election Fees Expense		0	8,333	(8,333)	0	24,999	(24,999)
	Total 5200 - Board Expenses		3,915	16,602	(12,687)	11,327	49,806	(38,479)
Total 5000 - Direct Expenses			153,123	151,920	1,203	333,579	455,760	(122,181)

Desert Healthcare District
Profit & Loss Budget vs. Actual
 July through September 2022

	MONTH			TOTAL		
	Sep 22	Budget	\$ Over Budget	Jul - Sep 22	Budget	\$ Over Budget
6000 • General & Administrative Exp						
6110 • Payroll fees Expense	220	208	12	594	624	(30)
6120 • Bank and Investment Fees Exp	5,868	4,500	1,368	17,211	13,500	3,711
6125 • Depreciation Expense	985	4,917	(3,932)	2,955	14,751	(11,796)
6126 • Depreciation-Solar Parking lot	15,072	15,072	0	45,216	45,216	0
6130 • Dues and Membership Expense	4,226	4,159	67	8,475	12,477	(4,002)
6200 • Insurance Expense	3,929	2,667	1,262	11,787	8,001	3,786
6300 • Minor Equipment Expense	0	42	(42)	0	126	(126)
6305 • Auto Allowance & Mileage Exp	692	500	192	1,616	1,500	116
6306 • Staff- Auto Mileage reimb	193	625	(432)	193	1,875	(1,682)
6309 • Personnel Expense	0	375	(375)	0	1,125	(1,125)
6310 • Miscellaneous Expense	0	42	(42)	0	126	(126)
6311 • Cell Phone Expense	558	725	(167)	1,583	2,175	(592)
6312 • Wellness Park Expenses	0	83	(83)	0	249	(249)
6315 • Security Monitoring Expense	0	50	(50)	108	150	(42)
6340 • Postage Expense	100	333	(233)	615	999	(384)
6350 • Copier Rental/Fees Expense	377	500	(123)	1,131	1,500	(369)
6351 • Travel Expense	3,103	1,667	1,436	5,983	5,001	982
6352 • Meals & Entertainment Exp	1,035	875	160	2,976	2,625	351
6355 • Computer Services Expense	6,014	4,263	1,751	11,241	12,789	(1,548)
6360 • Supplies Expense	1,705	1,917	(212)	3,447	5,751	(2,304)
6380 • LAFCO Assessment Expense	205	208	(3)	615	624	(9)
6400 • East Valley Office	2,545	2,517	28	7,660	7,551	109
Total 6000 • General & Administrative Exp	46,827	46,245	582	123,406	138,735	(15,329)
6325 • CEO Discretionary Fund	0	2,083	(2,083)	10,000	6,249	3,751
6445 • LPMP Expenses	85,525	94,176	(8,651)	270,790	282,528	(11,738)
6500 • Professional Fees Expense						
6516 • Professional Services Expense	119,662	72,094	47,568	224,489	216,282	8,207
6520 • Annual Audit Fee Expense	1,458	1,458	0	4,374	4,374	0
6530 • PR/Communications/Website	844	5,467	(4,623)	14,620	16,401	(1,781)
6560 • Legal Expense	45,210	10,000	35,210	38,945	30,000	8,945
Total 6500 • Professional Fees Expense	167,174	89,019	78,155	282,428	267,057	15,371
6700 • Trust Expenses						
6720 • Pension Plans Expense						
6721 • Legal Expense	0	167	(167)	0	501	(501)
6725 • RPP Pension Expense	5,000	5,000	0	15,000	15,000	0
6728 • Pension Audit Fee Expense	458	854	(396)	6,175	2,562	3,613
Total 6700 • Trust Expenses	5,458	6,021	(563)	21,175	18,063	3,112
Total Expense Before Grants	458,107	389,464	68,643	1,041,377	1,168,394	(127,017)
7000 • Grants Expense						
7010 • Major Grant Awards Expense	0	333,333	(333,333)	15,000	999,999	(984,999)
Net Income	(979,285)	(665,381)	(313,904)	(1,465,138)	(1,996,145)	531,007

Las Palmas Medical Plaza
Profit & Loss Budget vs. Actual
July through September 2022

			MONTH			TOTAL		
			Sep 22	Budget	\$ Over Budget	Jul - Sep 22	Budget	\$ Over Budget
Income								
4500 · LPMP Income								
	4505 · Rental Income		84,988	80,018	4,970	252,787	240,054	12,733
	4510 · CAM Income		33,915	32,898	1,017	101,038	98,694	2,344
	4513 · Misc. Income		0	83	(83)	0	249	(249)
Total 4500 · LPMP Income			118,903	112,999	5,904	353,825	338,997	14,828
Expense								
6445 · LPMP Expenses								
	6420 · Insurance Expense		4,338	3,125	1,213	13,014	9,375	3,639
	6425 · Building - Depreciation Expense		24,455	27,441	(2,986)	73,365	82,323	(8,958)
	6426 · Tenant Improvements -Dep Exp		16,959	16,667	292	50,877	50,001	876
	6427 · HVAC Maintenance Expense		0	1,333	(1,333)	684	3,999	(3,315)
	6428 · Roof Repairs Expense		0	208	(208)	0	624	(624)
	6431 · Building -Interior Expense		0	625	(625)	0	1,875	(1,875)
	6432 · Plumbing -Interior Expense		0	667	(667)	1,619	2,001	(382)
	6433 · Plumbing -Exterior Expense		0	208	(208)	0	624	(624)
	6434 · Allocation Internal Prop. Mgmt		6,363	5,470	893	19,089	16,410	2,679
	6435 · Bank Charges		37	42	(5)	96	126	(30)
	6437 · Utilities -Vacant Units Expense		0	183	(183)	334	549	(215)
	6439 · Deferred Maintenance Repairs Ex		0	1,250	(1,250)	0	3,750	(3,750)
	6440 · Professional Fees Expense		11,150	11,150	0	33,450	33,450	0
	6441 · Legal Expense		0	83	(83)	0	249	(249)
	6458 · Elevators - R & M Expense		1,706	1,000	706	3,651	3,000	651
	6460 · Exterminating Service Expense		275	333	(58)	10,320	999	9,321
	6463 · Landscaping Expense		0	750	(750)	0	2,250	(2,250)
	6467 · Lighting Expense		0	500	(500)	0	1,500	(1,500)
	6468 · General Maintenance Expense		0	83	(83)	0	249	(249)
	6471 · Marketing-Advertising		0	1,250	(1,250)	1,475	3,750	(2,275)
	6475 · Property Taxes Expense		6,250	6,500	(250)	18,750	19,500	(750)
	6476 · Signage Expense		0	125	(125)	379	375	4
	6480 · Rubbish Removal Medical Waste E		1,293	1,500	(207)	3,887	4,500	(613)
	6481 · Rubbish Removal Expense		2,419	3,058	(639)	7,257	9,174	(1,917)
	6482 · Utilities/Electricity/Exterior		627	625	2	1,233	1,875	(642)
	6484 · Utilities - Water (Exterior)		972	625	347	3,113	1,875	1,238
	6485 · Security Expenses		8,681	9,208	(527)	27,987	27,624	363
	6490 · Miscellaneous Expense		0	167	(167)	210	501	(291)
6445 · LPMP Expenses			85,525	94,176	(8,651)	270,790	282,528	(11,738)
Net Income			33,378	18,823	14,555	83,035	56,469	26,566

Desert Healthcare District
Balance Sheet Previous Year Comparison
As of September 30, 2022

			Sep 30, 22	Sep 30, 21
ASSETS				
	Current Assets			
	Checking/Savings			
		1000 · CHECKING CASH ACCOUNTS	1,626,316	1,512,525
		1100 · INVESTMENT ACCOUNTS	60,266,448	61,705,638
		Total Checking/Savings	61,892,764	63,218,163
		Total Accounts Receivable	18,011	184,558
	Other Current Assets			
		1204.1 · Rent Receivable-Deferred COVID	81,591	141,503
		1270 · Prepaid Insurance -Ongoing	78,036	57,346
		1279 · Pre-Paid Fees	30,017	24,563
		1281 · CalFresh Receivable	0	11,115
		Total Other Current Assets	189,644	234,527
		Total Current Assets	62,100,419	63,637,248
	Fixed Assets			
		1300 · FIXED ASSETS	5,070,936	4,910,941
		1335-00 · ACC DEPR	(2,421,928)	(2,207,058)
		1400 · LPMP Assets	7,100,164	7,119,700
		Total Fixed Assets	9,749,172	9,823,583
	Other Assets			
		1700 · OTHER ASSETS	3,524,745	3,972,720
	TOTAL ASSETS		75,374,336	77,433,551

Desert Healthcare District
Balance Sheet Previous Year Comparison
As of September 30, 2022

				Sep 30, 22	Sep 30, 21
LIABILITIES & EQUITY					
	Liabilities				
	Current Liabilities				
	Accounts Payable				
	2000 - Accounts Payable			27,331	6,167
	2001 - LPMP Accounts Payable			3,712	10,589
	Total Accounts Payable			31,043	16,756
	Other Current Liabilities				
	2002 - LPMP Property Taxes			18,750	18,750
	2003 - Prepaid Rents			0	9,121
	2131 - Grant Awards Payable			4,678,225	4,169,055
	2133 - Accrued Accounts Payable			159,550	139,550
	2141 - Accrued Vacation Time			86,598	82,401
	2188 - Current Portion - LTD			11,103	11,103
	2190 - Investment Fees Payable			15,000	28,500
	Total Other Current Liabilities			4,969,226	4,458,480
	Total Current Liabilities			5,000,269	4,475,236
	Long Term Liabilities				
	2171 - RPP-Deferred Inflows-Resources			492,802	675,732
	2280 - Long-Term Disability			2,981	16,281
	2281 - Grants Payable - Long-term			3,520,000	4,990,000
	2290 - LPMP Security Deposits			64,960	59,101
	Total Long Term Liabilities			4,080,743	5,741,114
	Total Liabilities			9,081,012	10,216,350
	Equity				
	3900 - *Retained Earnings			67,758,461	67,408,928
	Net Income			(1,465,138)	(191,726)
	Total Equity			66,293,323	67,217,202
	TOTAL LIABILITIES & EQUITY			75,374,336	77,433,551

Desert Healthcare District
Balance Sheet Previous Year Comparison
As of September 30, 2022

			Sep 30, 22	Sep 30, 21
ASSETS				
	Current Assets			
	Checking/Savings			
	1000 · CHECKING CASH ACCOUNTS			
		1010 · Union Bank - Checking	0	1,296,711
		1012 · Union Bank Operating - 9356	1,399,099	0
		1046 · Las Palmas Medical Plaza	226,717	215,314
		1047 · Petty Cash	500	500
		Total 1000 · CHECKING CASH ACCOUNTS	1,626,316	1,512,525
	1100 · INVESTMENT ACCOUNTS			
		1130 · Facility Replacement Fund	63,179,482	61,255,623
		1135 · Unrealized Gain(Loss) FRF	(2,913,034)	450,015
		Total 1100 · INVESTMENT ACCOUNTS	60,266,448	61,705,638
		Total Checking/Savings	61,892,764	63,218,163
	Accounts Receivable			
		1201 · Accounts Receivable		
		1204 · LPMP Accounts Receivable	(25,804)	(17,059)
		1211 · A-R Foundation - Exp Allocation	43,815	201,617
		Total Accounts Receivable	18,011	184,558
	Other Current Assets			
		1204.1 · Rent Receivable-Deferred COVID	81,591	141,503
		1270 · Prepaid Insurance -Ongoing	78,036	57,346
		1279 · Pre-Paid Fees	30,017	24,563
		1281 · CalFresh Receivable	0	11,115
		Total Other Current Assets	189,644	234,527
		Total Current Assets	62,100,419	63,637,248
	Fixed Assets			
	1300 · FIXED ASSETS			
		1310 · Computer Equipment	90,568	80,487
		1320 · Furniture and Fixtures	33,254	33,254
		1321 · Mobile Medical Unit	197,214	59,500
		1322 · Tenant Improvement - RAP #G100	32,794	20,594
		1325 · Offsite Improvements	300,849	300,849
		1331 · DRMC - Parking lot	4,416,257	4,416,257
		Total 1300 · FIXED ASSETS	5,070,936	4,910,941

Desert Healthcare District
Balance Sheet Previous Year Comparison
As of September 30, 2022

		Sep 30, 22	Sep 30, 21
	1335-00 · ACC DEPR		
	1335 · Accumulated Depreciation	(221,753)	(210,296)
	1337 · Accum Deprec- Solar Parking Lot	(2,004,747)	(1,823,883)
	1338 · Accum Deprec - LPMP Parking Lot	(195,428)	(172,879)
	Total 1335-00 · ACC DEPR	(2,421,928)	(2,207,058)
	1400 · LPMP Assets		
	1401 · Building	8,705,680	8,705,680
	1402 · Land	2,165,300	2,165,300
	1403 · Tenant Improvements -New	2,271,406	2,185,396
	1404 · Tenant Improvements - CIP	129,550	129,550
	1406 · Building Improvements		
	1406.1 · LPMP-Replace Parking Lot	676,484	676,484
	1406.2 · Building Improvements-CIP	459,999	711,496
	1406 · Building Improvements - Other	2,153,527	1,581,558
	Total 1406 · Building Improvements	3,290,010	2,969,538
	1407 · Building Equipment Improvements	444,268	414,851
	1409 · Accumulated Depreciation		
	1410 · Accum. Depreciation	(7,942,137)	(7,701,511)
	1412 · T I Accumulated Dep.-New	(1,963,913)	(1,749,104)
	Total 1409 · Accumulated Depreciation	(9,906,050)	(9,450,615)
	Total 1400 · LPMP Assets	7,100,164	7,119,700
	Total Fixed Assets	9,749,172	9,823,583
	Other Assets		
	1700 · OTHER ASSETS		
	1731 · Wellness Park	1,693,800	1,693,800
	1740 · RPP-Deferred Outflows-Resources	836,699	494,388
	1742 · RPP - Net Pension Asset	994,246	1,784,532
	Total Other Assets	3,524,745	3,972,720
	TOTAL ASSETS	75,374,336	77,433,551

Desert Healthcare District
Balance Sheet Previous Year Comparison
As of September 30, 2022

				Sep 30, 22	Sep 30, 21
LIABILITIES & EQUITY					
	Liabilities				
	Current Liabilities				
	Accounts Payable				
	2000 - Accounts Payable			27,331	6,167
	2001 - LPMP Accounts Payable			3,712	10,589
	Total Accounts Payable			31,043	16,756
	Other Current Liabilities				
	2002 - LPMP Property Taxes			18,750	18,750
	2003 - Prepaid Rents			0	9,121
	2131 - Grant Awards Payable			4,678,225	4,169,055
	2133 - Accrued Accounts Payable			159,550	139,550
	2141 - Accrued Vacation Time			86,598	82,401
	2188 - Current Portion - LTD			11,103	11,103
	2190 - Investment Fees Payable			15,000	28,500
	Total Other Current Liabilities			4,969,226	4,458,480
	Total Current Liabilities			5,000,269	4,475,236
	Long Term Liabilities				
	2171 - RPP-Deferred Inflows-Resources			492,802	675,732
	2280 - Long-Term Disability			2,981	16,281
	2281 - Grants Payable - Long-term			3,520,000	4,990,000
	2290 - LPMP Security Deposits			64,960	59,101
	Total Long Term Liabilities			4,080,743	5,741,114
	Total Liabilities			9,081,012	10,216,350
	Equity				
	3900 - *Retained Earnings			67,758,461	67,408,928
	Net Income			(1,465,138)	(191,726)
	Total Equity			66,293,323	67,217,202
	TOTAL LIABILITIES & EQUITY			75,374,336	77,433,551

Desert Healthcare District
A/R Aging Summary
As of September 30, 2022

	Current	1 - 30	31 - 60	61 - 90	> 90	TOTAL	COMMENT
Coachella Valley Volunteers in Medicine-	(3,123)	0	0	0	0	(3,123)	Prepaid
Derakhsh Fozouni, M.D.	0	(6,414)	0	0	0	(6,414)	Prepaid
Desert Healthcare Foundation-	43,815	0	0	0	0	43,815	Due from Foundation
Desert Oasis Healthcare	0	(2,499)	0	0	0	(2,499)	Prepaid
Global Premier Fertility	0	(4,123)	0	0	0	(4,123)	Prepaid
Laboratory Corporation of America	0	252	0	0	0	252	AC Reimbursement
Quest Diagnostics Incorporated	0	(4,154)	0	0	0	(4,154)	Prepaid
Steven Gundry, M.D.	0	(5,743)	0	0	0	(5,743)	Prepaid
TOTAL	40,692	(22,681)	0	0	0	18,011	

Desert Healthcare District
Deposit Detail
September 2022

Type	Date	Name	Amount
Deposit	09/02/2022		2,000
		T-Mobile	(2,000)
TOTAL			(2,000)
Deposit	09/08/2022		3,382
		Riverside County Treasurer - Property Tax	(3,382)
TOTAL			(3,382)
Deposit	09/08/2022		90,249
Payment	09/08/2022	Desert Healthcare Foundation-	(90,249)
TOTAL			(90,249)
Deposit	09/13/2022		2,800
		ACHD - Annual Meeting Refund	(675)
		ACHD - Annual Meeting Refund	(2,125)
TOTAL			(2,800)
Deposit	09/28/2022		2,000
		T-Mobile	(2,000)
TOTAL			(2,000)

DESERT HEALTHCARE DISTRICT											
PROPERTY TAX RECEIPTS FY 2022 - 2023											
RECEIPTS - THREE MONTHS ENDED SEPTEMBER 30, 2022											
	FY 2021-2022 Projected/Actual						FY 2022-2023 Projected/Actual				
	Budget %	Budget \$	Act %	Actual Receipts	Variance		Receipts %	Receipts \$	Act %	Actual Receipts	Variance
July	2.5%	\$ 182,825	2.2%	\$ 162,345	\$ (20,480)		0.0%	\$ -	0.0%	\$ 3,676	\$ 3,676
Aug	1.6%	\$ 117,008	0.2%	\$ 11,529	\$ (105,479)		0.0%	\$ -	2.2%	\$ 175,271	\$ 175,271
Sep	0.0%	\$ -	0.0%	\$ -	\$ -		0.0%	\$ -	0.0%	\$ 3,382	\$ 3,382
Oct	2.6%	\$ 190,138	0.0%	\$ 130	\$ (190,008)		2.6%	\$ 208,624	0.0%		
Nov	0.4%	\$ 29,252	2.5%	\$ 181,286	\$ 152,034		0.4%	\$ 32,096	0.0%		
Dec	16.9%	\$ 1,235,897	18.3%	\$ 1,337,681	\$ 101,784		16.9%	\$ 1,356,056	0.0%		
Jan	31.9%	\$ 2,332,847	37.8%	\$ 2,763,324	\$ 430,477		31.9%	\$ 2,559,656	0.0%		
Feb	0.0%	\$ -	2.5%	\$ 180,240	\$ 180,240		0.0%	\$ -	0.0%		
Mar	0.3%	\$ 21,939	0.5%	\$ 35,819	\$ 13,880		0.3%	\$ 24,072	0.0%		
Apr	5.5%	\$ 402,215	6.1%	\$ 443,891	\$ 41,676		5.5%	\$ 441,320	0.0%		
May	19.9%	\$ 1,455,287	45.0%	\$ 3,288,706	\$ 1,833,419		19.9%	\$ 1,596,776	0.0%		
June	18.4%	\$ 1,345,592	0.7%	\$ 47,936	\$ (1,297,656)		22.5%	\$ 1,805,400	0.0%		
Total	100%	\$ 7,313,000	115.6%	\$ 8,452,887	\$ 1,139,887		100.00%	\$ 8,024,000	2.3%	\$ 182,330	\$ 182,330

Las Palmas Medical Plaza
Deposit Detail - LPMP
September 2022

Type	Date	Name	Amount
Deposit	09/01/2022		1,927
Payment	09/01/2022	Arthritis & Rheumatic Care Clinic, Inc	(1,927)
TOTAL			(1,927)
Deposit	09/02/2022		11,045
Payment	09/02/2022	Ramy Awad, M.D.	(3,494)
Payment	09/02/2022	EyeCare Services Partners Management LLC	(7,552)
TOTAL			(11,046)
Deposit	09/06/2022		14,135
Payment	09/06/2022	Global Premier Fertility	(4,123)
Payment	09/02/2022	Cure Cardiovascular Consultants	(3,212)
Payment	09/02/2022	Aijaz Hashmi, M.D., Inc.	(3,101)
Payment	09/02/2022	Brad A. Wolfson, M.D.	(3,699)
TOTAL			(14,135)
Deposit	09/12/2022		11,029
Payment	09/12/2022	Desert Family Medical Center	(3,835)
Payment	09/12/2022	Palmtree Clinical Research	(7,194)
TOTAL			(11,029)
Deposit	09/13/2022		51,675
Payment	09/13/2022	Pathway Pharmaceuticals, Inc.	(2,471)
Payment	09/13/2022	Peter Jamieson, M.D.	(3,338)
Payment	09/13/2022	Desert Regional Medical Center	(5,690)
Payment	09/13/2022	Tenet HealthSystem Desert, Inc.	(33,683)
Payment	09/13/2022	Tenet HealthSystem Desert, Inc	(6,494)
TOTAL			(51,676)

Las Palmas Medical Plaza
Deposit Detail - LPMP
September 2022

Type	Date	Name	Amount
Deposit	09/14/2022		4,703
Payment	09/13/2022	Cohen Musch Thomas Medical Group	(4,703)
TOTAL			(4,703)
Deposit	09/19/2022		4,123
Payment	09/19/2022	Global Premier Fertility	(4,123)
TOTAL			(4,123)
Deposit	09/22/2022		12,827
Payment	09/22/2022	Derakhsh Fozouni, M.D.	(6,414)
Payment	09/22/2022	Derakhsh Fozouni, M.D.	(6,414)
TOTAL			(12,828)
Deposit	09/27/2022		8,242
Payment	09/27/2022	Desert Oasis Healthcare	(2,499)
Payment	09/27/2022	Steven Gundry, M.D.	(5,743)
TOTAL			(8,242)
Deposit	09/29/2022		4,154
Payment	09/29/2022	Quest Diagnostics Incorporated	(4,154)
TOTAL			(4,154)
Deposit	09/30/2022		3,123
Payment	09/30/2022	Coachella Valley Volunteers in Medicine-	(3,123)
TOTAL			(3,123)
		TOTAL	126,983

Desert Healthcare District
Check Register
As of September 30, 2022

Type	Date	Num	Name	Amount
1000 - CHECKING CASH ACCOUNTS				
1012 - Union Bank Operating - 9356				
Liability Check	09/02/2022		QuickBooks Payroll Service	(53,516)
Bill Pmt -Check	09/02/2022	1257	Pitney Bowes Global Financial Services	(29)
Bill Pmt -Check	09/06/2022	1258	First Bankcard (Union Bank)	(16,149)
Bill Pmt -Check	09/06/2022	1259	Galilee Center - Grant Payment	(22,500)
Bill Pmt -Check	09/06/2022	1260	Simpson, Gumpertz & Heger	(26,800)
Bill Pmt -Check	09/06/2022	1261	Strategies 360, Inc.	(9,500)
Bill Pmt -Check	09/06/2022	1262	First Bankcard (Union Bank)	(3,614)
Bill Pmt -Check	09/06/2022	1263	Magdalena Martinez - HR Consulting Services	(1,854)
Bill Pmt -Check	09/06/2022	1264	Ready Refresh	(50)
Bill Pmt -Check	09/06/2022	1265	So.Cal Computer Shop	(810)
Bill Pmt -Check	09/06/2022	1266	Spectrum (Time Warner)	(258)
Bill Pmt -Check	09/06/2022	1267	The Nyhart Company	(4,801)
Bill Pmt -Check	09/06/2022	1268	Underground Service Alert of Southern Cal	(2)
Check	09/06/2022	Auto Pay	Calif. Public Employees'Retirement System	(16,805)
Bill Pmt -Check	09/13/2022	1269	American Public Health Assoc	(500)
Bill Pmt -Check	09/13/2022	1270	California Consulting	(4,250)
Bill Pmt -Check	09/13/2022	1271	Desert AIDS Project - Grant Payment	(10,000)
Bill Pmt -Check	09/13/2022	1272	Mangus Accountancy Group, A.P.C.	(500)
Bill Pmt -Check	09/13/2022	1273	Purchase Power	(100)
Bill Pmt -Check	09/13/2022	1274	So.Cal Computer Shop	(6,197)
Bill Pmt -Check	09/13/2022	1275	Spectrum (Time Warner)	(267)
Bill Pmt -Check	09/13/2022	1276	Staples Credit Plan	(541)
Bill Pmt -Check	09/13/2022	1277	State Compensation Insurance Fund	(731)
Bill Pmt -Check	09/13/2022	1278	Xerox Financial Services	(377)
Bill Pmt -Check	09/13/2022	1279	Youth Leadership Institute - Grant Payment	(11,250)
Liability Check	09/16/2022		QuickBooks Payroll Service	(49,684)
Bill Pmt -Check	09/16/2022	1280	CoPower Employers' Benefits Alliance	(1,750)
Bill Pmt -Check	09/16/2022	1281	Regional Access Project Foundation	(545)
Bill Pmt -Check	09/16/2022	1282	So.Cal Computer Shop	(960)
Bill Pmt -Check	09/16/2022	1283	State Compensation Insurance Fund	(232)
Bill Pmt -Check	09/19/2022	1284	California Chamber of Commerce	(679)
Bill Pmt -Check	09/19/2022	1285	Principal Life Insurance Co.	(2,208)
Bill Pmt -Check	09/19/2022	1286	The Desert Sun	(414)
Bill Pmt -Check	09/22/2022	1287	Alianza Coachella Valley - Grant Payment	(22,500)
Bill Pmt -Check	09/22/2022	1288	Regional Access Project Foundation	(2,000)
Check	09/26/2022		Bank Service Charge	(868)
Bill Pmt -Check	09/27/2022	1289	Coachella Valley Accounting & Auditing	(2,750)

Desert Healthcare District
Check Register
As of September 30, 2022

Type	Date	Num	Name	Amount
Bill Pmt -Check	09/27/2022	1290	Donna Den Bleyker - Expense Reimbursement	(156)
Bill Pmt -Check	09/27/2022	1291	Frazier Pest Control, Inc.	(33)
Bill Pmt -Check	09/27/2022	1292	Ready Refresh	(50)
Bill Pmt -Check	09/27/2022	1293	DesertWraps.com	(4,923)
Bill Pmt -Check	09/27/2022	1294	Eric Taylor - Expense Reimbursement	(37)
Bill Pmt -Check	09/27/2022	1295	Verizon Wireless	(615)
Liability Check	09/30/2022		QuickBooks Payroll Service	(49,648)
Bill Pmt -Check	09/30/2022	1296	Image Source	(128)
Bill Pmt -Check	09/30/2022	1297	Kaufman Hall	(77,650)
Bill Pmt -Check	09/30/2022	1298	Magnum Mobile	(62,725)
Bill Pmt -Check	09/30/2022	1299	Strategies 360, Inc.	(9,500)
Bill Pmt -Check	09/30/2022	1300	Top Shop	(80)
Bill Pmt -Check	09/30/2022	1301	Zendle, Les - Stipend	(441)
TOTAL				(481,977)

Desert Healthcare District									
Details for Credit Card Expenditures									
Credit card purchases - August 2022 - Paid September 2022									
Number of credit cards held by District personnel -2									
Credit Card Limit - \$25,000 - Conrado, \$20,000 - Chris									
Credit Card Holders:									
Conrado Bárzaga - Chief Executive Officer									
Chris Christensen - Chief Administration Officer									
Routine types of charges:									
Office Supplies, Dues for membership, Computer Supplies, Meals, Travel including airlines and Hotels, Catering, Supplies for BOD meetings, CEO Discretionary for small grant & gift items									
	Statement								
	Month	Total		Expense					
Year	Charged	Charges		Type	Amount	Purpose	Description	Participants	
		\$ 19,763.48							
Chris' Statement:									
2022	August	\$ 16,149.38		District					
				GL	Dollar	Description			
				6530	\$ 13,000.00	McClatchy Advertising			
				6355	\$ 26.62	Premiere Global Services - July 2022			
				6355	\$ 1,764.00	Dropbox annual subscription			
				6530	\$ 588.00	Constant Contact Annual Subscription			
				6355	\$ 250.76	Zoom videoconference/webinar expense			
				6130	\$ 520.00	AICPA Membership - Chris Christensen			
					\$ 16,149.38				
Conrado's Statement:									
2022	August	\$ 3,614.10							
				District					
				GL	Dollar	Description			
				5230	\$ 800.00	CSDA Annual Conference August 2022 Palm Desert, CA - Director De Lara			
				6130	\$ 85.00	APHA Annual Membership - Conrado			
				5160	\$ 900.00	APHA Annual Meeting - November 2022 Boston, MA- Conrado Barzaga			
				5160	\$ 1,725.00	ACHD Annual Meeting September 2022 Garden Grove, CA - Donna Craig			
				6351	\$ 4.10	ParkMobile - IE Funders Alliance Meeting Riverside, CA - Conrado Barzaga			
				5160	\$ 100.00	CSDA Virtual Workshop: HR Boot Camp for Special Districts - Andrea Hayles			
					\$ 3,614.10				

**Las Palmas Medical Plaza
Check Register - LPMP
As of September 30, 2022**

Type	Date	Num	Name	Amount
1000 - CHECKING CASH ACCOUNTS				
1046 - Las Palmas Medical Plaza				
Bill Pmt -Check	09/02/2022	10619	Best Signs, Inc.	(379)
Bill Pmt -Check	09/02/2022	10620 - VOID	Imperial Security	0
Bill Pmt -Check	09/02/2022	10621	Stericycle, Inc.	(1,297)
Bill Pmt -Check	09/06/2022	10622	Desert Air Conditioning Inc.	(411)
Bill Pmt -Check	09/06/2022	10623	Faultline Pigeon Control	(4,885)
Bill Pmt -Check	09/06/2022	10624	Frazier Pest Control, Inc.	(275)
Bill Pmt -Check	09/06/2022	10625	KC's Plumbing	(339)
Bill Pmt -Check	09/13/2022	10626	Desert Air Conditioning Inc.	(177)
Bill Pmt -Check	09/13/2022	10627	Frontier Communications	(250)
Bill Pmt -Check	09/13/2022	10628	Imperial Security	(4,431)
Bill Pmt -Check	09/13/2022	10629	Palm Springs Disposal Services Inc	(2,419)
Bill Pmt -Check	09/13/2022	10630	Southern California Edison	(627)
Bill Pmt -Check	09/22/2022	10631	Amtech Elevator Services	(1,456)
Bill Pmt -Check	09/22/2022	10632	Desert Air Conditioning Inc.	(252)
Bill Pmt -Check	09/22/2022	10633	Imperial Security	(4,250)
Bill Pmt -Check	09/22/2022	10634	INPRO Environmental Management Services	(7,785)
Check	09/22/2022		Bank Service Charge	(443)
Bill Pmt -Check	09/27/2022	10635	INPRO Environmental Management Services	(11,150)
Bill Pmt -Check	09/30/2022	10636	Imperial Security	(2,125)
Bill Pmt -Check	09/30/2022	10637	Desert Water Agency	(972)
TOTAL				(43,923)



MEMORANDUM

DATE: October 11, 2022

TO: F&A Committee

RE: Retirement Protection Plan (RPP)

Current number of participants in Plan:

	<u>August</u>	<u>September</u>
Active – still employed by hospital	81	80
Vested – no longer employed by hospital	55	55
Former employees receiving annuity	<u>7</u>	<u>7</u>
Total	<u>143</u>	<u>142</u>

The outstanding liability for the RPP is approximately **\$3.3M** (Actives - \$2.0M and Vested - \$1.3M). US Bank investment account balance \$4.6M. Per the June 30, 2022, Actuarial Valuation, the RPP has an Overfunded Pension Asset of approximately **\$1.0M**.

The payouts, excluding monthly annuity payments, made from the Plan for the three (3) months ended September 30, 2022, totaled **\$97K**. Monthly annuity payments (7 participants) total **\$1.0K** per month.

DESERT HEALTHCARE DISTRICT							
OUTSTANDING GRANTS AND GRANT PAYMENT SCHEDULE							
September 30, 2022							
TWELVE MONTHS ENDING JUNE 30, 2023							
Grant ID Nos.	Name	Approved Grants - Prior Yrs	6/30/2022 Bal Fwd	Current Yr 2021-2022	Total Paid Prior Yrs July-June	Total Paid Current Yr July-June	Open BALANCE
2014-MOU-BOD-11/21/13	Memo of Understanding CVAG CV Link Support	\$ 10,000,000	\$ 4,990,000		\$ -		\$ 4,990,000
2021-1136-BOD-01-26-21	Ronald McDonald House Charities - Temporary Housing & Family Support Services - 1 Yr.	\$ 119,432	\$ 11,944		\$ -		\$ 11,944
2021-1171-BOD-03-23-21	Blood Bank of San Bernardino/Riverside Counties - Bloodmobiles for Coachella Valley - 18 Months	\$ 150,000	\$ 15,000		\$ -		\$ 15,000
2021-1266-BOD-04-27-21	Galilee Center - Our Lady of Guadalupe Shelter - 1 Yr.	\$ 150,000	\$ 15,000		\$ 15,000		\$ -
2021-1277-BOD-04-27-21	Lift To Rise - United Lift Rental Assistance 2021 - 8 Months	\$ 300,000	\$ 30,000		\$ 30,000		\$ -
2021-1280-BOD-05-25-21	Desert AIDS Project - DAP Health Expands Access to Healthcare - 1Yr.	\$ 100,000	\$ 10,000		\$ 10,000		\$ -
2021-1296-BOD-11-23-21	Coachella Valley Volunteers In Medicine - Improving Access to Healthcare Services - 1 Yr.	\$ 154,094	\$ 84,752		\$ 69,342		\$ 15,410
2021-1289-BOD-12-21-21	Desert Cancer Foundation - Patient Assistance Program - 1 Yr.	\$ 150,000	\$ 82,500		\$ 67,500		\$ 15,000
2022-1301-BOD-01-25-22	UCR Regents - Community Based Interventions to Mitigate Psychological Trauma - 1 Yr.	\$ 113,514	\$ 62,433		\$ -		\$ 62,433
2022-1302-BOD-01-25-22	Vision To Learn - Palm Springs, Desert Sands, and Coachella Valley School Districts 1 Yr.	\$ 50,000	\$ 27,500		\$ -		\$ 27,500
2022-1303-BOD-01-25-22	CSU San Bernardino Palm Desert Campus Street Medicine Program - 1 Yr.	\$ 54,056	\$ 29,731		\$ -		\$ 29,731
2022-1306-BOD-02-22-22	Olive Crest Treatment Center - General Support for Mental Health Services - 1 Yr.	\$ 123,451	\$ 67,898		\$ -		\$ 67,898
2022-1311-BOD-04-26-22	Desert Arc - Healthcare for Adults with Disabilities Project Employment of Nurses - 1 Yr.	\$ 102,741	\$ 56,508		\$ -		\$ 56,508
2022-1313-BOD-04-26-22	Angel View - Improving Access to Primary and Specialty Care Services for Children With Disabilities 1 Yr.	\$ 76,790	\$ 42,235		\$ -		\$ 42,235
2022-1314-BOD-05-24-22	Voices for Children - Court Appointed Special Advocate Program - 1 Yr.	\$ 60,000	\$ 60,000		\$ 27,000		\$ 33,000
2022-1325-BOD-06-28-22	Vision Y Compromiso - CVEC Unrestricted Grant Funds - 2 Yrs.	\$ 150,000	\$ 150,000		\$ 33,750		\$ 116,250
2022-1327-BOD-06-28-22	Youth Leadership Institute - Youth Voice in Mental Health - 2 Yrs.	\$ 50,000	\$ 50,000		\$ 11,250		\$ 38,750
2022-1328-BOD-06-28-22	El Sol - Expanding Access to Educational Resources for Promotoras - 2 Yrs.	\$ 150,000	\$ 150,000		\$ 33,750		\$ 116,250
2022-1331-BOD-06-28-22	Pueblo Unido - Improving Access to Behavioral Health Education and Prevention Services - 2 Yrs.	\$ 50,000	\$ 50,000		\$ 11,250		\$ 38,750
2022-0965-BOD-06-28-22	Desert Healthcare Foundation - Behavioral Health Initiative Expansion - 3 Yrs.	\$ 2,000,000	\$ 2,000,000		\$ 2,000,000		\$ -
2022-22-15-BOD-06-28-22	Carry over of remaining Fiscal Year 2021/2022 Funds*	\$ 2,566,566	\$ 2,566,566		\$ 1,429,268		\$ 1,137,298
2022-1324-BOD-07-26-22	Galilee Center - Our Lady of Guadalupe Shelter - 2 Yr.			\$ 100,000		\$ 22,500	\$ 77,500
2022-1332-BOD-07-26-22	Alianza CV - Expanding and Advancing Outreach Through Increasing Capacity Development - 2 Yrs.			\$ 100,000		\$ 22,500	\$ 77,500
2022-1329-BOD-09-27-22	DPMG - Mobile Medical Unit - 3 Yrs.			\$ 500,000		\$ -	\$ 500,000
2022-1350-BOD-09-27-22	JFK Memorial Foundation - Behavioral Health Awareness and Education Program - 1 Yr.			\$ 57,541		\$ -	\$ 57,541
2022-1355-BOD-09-27-22	Joslyn Center - The Joslyn Wellness Center - 1 Yr.			\$ 85,000		\$ -	\$ 85,000
2022-1361-BOD-09-27-22	DAP Health - DAP Health Monkeypox Virus Response - 1 Yr.			\$ 586,727		\$ -	\$ 586,727
						\$ -	\$ -
						\$ -	\$ -
TOTAL GRANTS		\$ 16,670,644	\$ 10,552,067	\$ 1,429,268	\$ 3,738,110	\$ 45,000	\$ 8,198,225
Amts available/remaining for Grant/Programs - FY 2022-23:							
Amount budgeted 2022-2023			\$ 4,000,000			G/L Balance:	9/30/2022
Amount granted through September 30, 2022:			\$ (1,429,268)				
Mini Grants:	1321; 1322; 1323		\$ (15,000)			2131	\$ 4,678,225
Financial Audits of Non-Profits; Organizational Assessments			\$ -			2281	\$ 3,520,000
Net adj - Grants not used:	FY 21-22 Funds		\$ 2,566,566			Total	\$ 8,198,225
Matching external grant contributions			\$ -				\$ (0)
Balance available for Grants/Programs			\$ 5,122,298				
* Value listed in Total Paid column reflects funds granted from carryover funds. Actual grant payments will be reflected under the respective grant.							



Date: October 11, 2022

To: Finance & Administration Committee

Subject: Coachella Valley Accounting & Auditing – FY2022 Audit Reports – District & RPP

Staff Recommendation: Consideration to approve the FY2022 Audit reports for the Desert Healthcare District and the Retirement Protection Plan (RPP).

Background:

- Lund & Guttry LLP performed the audits of the District and Foundation entities for fiscal years 2020 and 2021.
- During fiscal year 2022, the audit department of Lund & Guttry discontinued allowing the audit staff to create their own accounting and auditing firm, Coachella Valley Accounting & Auditing, who completed the FY22 audits.
- During the fiscal year, the Foundation continued to receive ELC federal funding via Riverside County, which required an A-133 (Single Audit) for the 2nd consecutive year.
- All audit reports will be presented during the District committee meeting. However, the Foundation and Single Audit reports will be approved during the Foundation's committee meeting.
- Shannon Maidment, CPA, Andrea Oliveri, CPA, and Gary Dack, CPA, will present the following reports for your review and consideration for approval:
 - 1. Communication Letter
 - 2. Internal Controls Report
 - 3. District Audit Report
 - 4. Retirement Protection Plan (RPP) Audit Report
 - 5. Desert Healthcare Foundation & Single Audit Reports (Information only).
To be approved during the Foundation's F&A Committee meeting)
- The District and Retirement Protection Plan audits received unmodified opinions with no findings.
- The Foundation and Single Audits also received unmodified opinions.
- However, a finding is noted for the Foundation and identified as a Significant Deficiency.
- Accounting Standard was updated in 2020 (ASU 2018-08), which staff was made aware during the audit, that was not implemented.
- The update is regarding modified accounting treatment of Grants Payable and Restricted Net Assets.
- The accrual of initiatives (i.e. Behavioral Health and the Avery Trust-Air Quality funds) and the carry-over of grant budgets that are not presently awarded to external entities are no longer allowed and must be accounted for differently on the Foundation's books. This does not affect the accounting on the District's books.

- Specific details are noted in the Single Audit report of the Foundation.
- It is important to note, the required adjustments are accounting related and do not have financial implications.
- Staff recommends approval of the FY2022 Audit Reports for the District and Retirement Protection Plan.

Fiscal Impact:

None

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 11, 2022

To the Honorable Board of Directors
Desert Healthcare District, Desert Healthcare Foundation and Desert Hospital Retirement
Protection Plan (the Entities)
Palm Springs, California

We have audited the financial statements of Desert Healthcare District, Desert Healthcare Foundation and Desert Hospital Retirement Protection Plan (“the Entities”) for the year ended June 30, 2022, and have issued our report thereon dated October 11, 2022. Professional standards require that we provide you with information about our responsibility under generally accepted auditing standards and *Government Auditing Standards*, 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 January 11, 2022. 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 entities are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of one existing policy was updated during 21/22 relating to donor restricted grants/contributions versus grant payables (see Note 2 to the Foundation financial statements). We noted no transactions entered into by the entities 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:

- Accounts Receivable and Taxes Receivable – Management’s estimate of accounts receivable and taxes receivable is based on historical revenues and analysis of the collectability of individual accounts.

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- Useful Life of Capital Assets – Management’s estimate of the useful life of capital assets is based on the historical asset life for the entities capital assets and industry standards, in order to determine the value and period of time over which individual capital assets are to be depreciated.
- RPP and OPEB Plans – The funding progress and footnote disclosures are based on consultant’s estimates.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole, except a restatement to prior year, increasing donor restricted net assets by \$3,419,928 and decreasing net assets without donor restriction by \$157,365 for a total restatement of total net assets of \$3,262,563, as of June 30, 2020. Additionally, a restatement to correct expenses accrued for but not incurred totaling \$237,946, combined with the implementation of ASU 2018-08 for a net decrease to net assets without donor restriction of \$55,461 for the year ended June 30, 2021.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 11, 2022.

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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 Entities’ financial statements or a determination of the type of auditor’s 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 Entities’ 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 information and use of the members of the Board of Directors and Management and should not be used for any other purpose.

Very truly yours,

La Quinta, CA
Coachella Valley Accounting & Auditing

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

To the Honorable Board of Directors
Desert Healthcare District and Desert Hospital Retirement Protection Plan (the Entities)
Palm Springs, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business activities and the fiduciary funds financial statements of Desert Healthcare District and the financial statements of the Desert Hospital Retirement Protection Plan (the entities), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2022.

Report Internal Control over Financial Reporting

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

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

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

Report Compliance and Other Matters

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

Purpose of this Report

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

La Quinta, CA
October 11, 2022

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DESERT HEALTHCARE DISTRICT
PALM SPRINGS, CALIFORNIA
INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

DESERT HEALTHCARE DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Directors
of the Desert Healthcare District
Palm Springs, California

Opinion

We have audited the accompanying financial statements of the business type activities and the fiduciary fund financial statements of the Desert Healthcare District (District) as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the fiduciary fund financial statements of the District as of June 30, 2022, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 - 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022, on our consideration of Desert Healthcare District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Desert Healthcare District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements of Desert Healthcare District for the year ended June 30, 2021, were audited by other auditors whose report dated October 14, 2021, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

October 11, 2022

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DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2022 AND 2021

The Desert Healthcare District (the District) has issued its financial statements for the fiscal years ended June 30, 2022 and June 30, 2021 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). This report, Management's Discussion and Analysis, is an overview of the financial activities for the fiscal years and is an integral part of the accompanying Basic Financial Statements.

ACCOUNTING METHOD

The District's revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period incurred. All assets and liabilities associated with the activity of the District are included on the Statement of Net Position.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements reflect the activities of two funds. The Financial Statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position (Income Statement) and Statement of Cash Flows, and the Agency Fund, which is the Desert Healthcare Foundation's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. Together with this report, these Financial Statements provide information about the significant events, assumptions and decisions which resulted in the financial performance reflected in those statements.

The Statement of Net Position provides information regarding the financial position of the District, including its capital assets and debts.

The Statement of Revenues, Expenses, and Changes in Net Position (Income Statement) provide information regarding the revenues received by the District, and the expenses incurred in carrying out the District's programs.

The Statement of Cash Flows provides information regarding the sources and uses of the cash which flowed into and out of the District as a result of its operations and financing decisions.

FINANCIAL ACTIVITIES & FISCAL YEAR 2022 HIGHLIGHTS

Desert Healthcare District ("the District") is a government entity operating under the Local Health Care District Law. The District was created by the state of California in 1948 for the purpose of providing hospital services to the residents of the District. The District was responsible for building Desert Hospital, now known as Desert Regional Medical Center. In 1997, the Board of Directors voted to lease the hospital to Tenet Health System Desert, Inc. for 30 years. Since 1997, the District provides funding and access to programs and services to residents of the healthcare district. By a vote of the public in November 2018, the District boundaries expanded to include the entire Coachella Valley, more than doubling its population and service area. The Board of Directors was increased from 5 to 7 members.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2022 AND 2021

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The Statement of Net Position

A condensed version of the Statements of Net Position is presented in Table A below and the changes which occurred between Fiscal Year 2022 and 2021.

	<u>Table A</u>		
	6/30/2022	6/30/2021	Change
Assets:			
Cash and cash equivalents	\$ 9,116,884	\$ 10,193,578	\$ (1,076,694)
Investments	56,557,955	53,642,124	2,915,831
Capital assets, net	11,518,194	11,454,569	63,625
Net Pension Asset	1,009,246	1,807,032	(797,786)
All Other Assets	366,284	424,500	(58,216)
Total Assets	\$ 78,568,563	\$ 77,521,803	\$ 1,046,760
Deferred Outflows:			
GASB 68 Reporting for Pension Plans	\$ 836,699	\$ 494,388	\$ 342,311
Total Deferred Outflows	\$ 836,699	\$ 494,388	\$ 342,311
Liabilities:			
Grants payable	\$ 10,552,067	\$ 9,501,626	\$ 1,050,441
All Other Liabilities	601,933	429,905	172,028
Total Liabilities	\$ 11,154,000	\$ 9,931,531	\$ 1,222,469
Deferred Inflows:			
GASB 68 Reporting for Pension Plans	\$ 492,802	\$ 675,732	\$ (182,930)
Total Deferred Inflows	\$ 492,802	\$ 675,732	\$ (182,930)
Net Assets:			
Net investment in capital assets	11,518,194	\$ 11,454,569	\$ 63,625
Unrestricted	56,240,266	55,954,359	285,907
Total Net Position	\$ 67,758,460	\$ 67,408,928	\$ 349,532

The \$349,532 increase in Total Net Position is due to the net income of \$349,532 for the current fiscal year ended June 30, 2022. This compares to a net income of \$7,495,770 for the fiscal year ended June 30, 2021. The decrease is primarily due to a net combination of increased Property Tax Revenue of \$710,481, decreased Investment Revenue of \$1,828,510, and increased RPP Pension Expense of \$5,668,949 resulting from a change in assumptions in FY2021. The \$1,076,694 decrease in Cash and cash equivalents and \$2,915,831 increase in Investments is due primarily to an increase in property tax receipts and a decrease in annual disbursements. The \$797,786 decrease in Net Pension Assets, \$342,311 increase in Deferred Outflows, and \$182,930 decrease in Deferred Inflows are due to the current GASB 68 valuation report for the Retirement Protection Plan. The \$58,216 decrease in All Other Assets is due primarily to a net reduction in receivables. The \$1,050,441 increase in Grants Payable is due primarily to less grant disbursements than new accrued grants. The \$172,028 increase in All Other Liabilities is due primarily to a net increase in various liabilities.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2022 AND 2021

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The Statements of Revenues, Expenses, and Change in Net Position

The District's business is comprised of two major segments:

- Revenues – The District receives from the County of Riverside an apportionment of the property taxes paid by the residents of the District. Additional revenues include, the investment income the District receives from the Facility Replacement Fund (Reserve), which was established to provide working capital in the event that the lease with Tenet Health System Desert, Inc. is terminated prematurely or for future seismic retrofit needs; and rental income from the Las Palmas Medical Plaza which is owned and managed by the District.
- Grant Program – The District administers a grant and preventative health initiatives programs that donate a significant portion of the District's annual property tax revenues to health-related programs serving residents of Desert Hot Springs, Thousand Palms, Palm Springs, Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Indio, Coachella, Thermal, Mecca, North Shore, and unincorporated areas of the County that are within the District's boundaries.

Table B, below, is a condensed version of the Statements of Revenues, Expenses, and Changes in Net Position; it summarizes the District's revenue and expenses, and compares Fiscal Year 2022 results to Fiscal Year 2021.

Table B

	<u>6/30/22</u>	<u>6/30/21</u>	<u>Change</u>
Revenue:			
Property Tax Revenue	\$ 8,471,194	\$ 7,760,713	\$ 710,481
Rental income	1,339,960	1,246,013	93,947
All other income	232,189	79,034	153,155
Total Revenue	<u>\$ 10,043,343</u>	<u>\$ 9,085,760</u>	<u>\$ 957,583</u>
Expenses:			
Grants program	\$ 4,024,467	\$ 4,048,655	\$ (24,188)
Administrative Expense	3,568,209	2,993,310	574,899
Total Expense	<u>\$ 7,592,676</u>	<u>\$ 7,041,965</u>	<u>\$ 550,711</u>
Nonoperating Income(Expenses)	<u>\$ (2,101,135)</u>	<u>\$ 5,451,975</u>	<u>(7,553,110)</u>
Net Income (Loss)	<u>\$ 349,533</u>	<u>\$ 7,495,770</u>	<u>\$ (7,146,237)</u>

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2022 AND 2021

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Revenue

Property taxes are the District's primary source of operating revenues. The property tax revenue for the fiscal year ended June 30, 2022 was \$8,471,194, which was an increase of \$710,481 from the fiscal year ended June 30, 2021.

Rental income of \$1,339,960 for the fiscal year ended June 30, 2022 was \$93,947 higher than the fiscal year ended June 30, 2021.

All other income for the fiscal year ended June 30, 2022 increased \$153,176 compared to the fiscal year ended June 30, 2021. The increase was due primarily to an external contribution received of \$175,000.

Expenses

Grant Program expense for the fiscal year ended June 30, 2022 decreased by \$24,188 compared to the fiscal year ended June 30, 2021. This is due primarily to a small decrease in approved grants. Grants are recorded in the fiscal year that they are approved by the District's Board of Directors.

Administrative expenses for the fiscal year ended June 30, 2022 increased \$574,899 from the fiscal year ended June 30, 2021. The increase is due to various expenses including higher Professional Services of \$501,306 and Las Palmas Medical Plaza expenses of \$111,494. Nonoperating Income(Expenses) for the fiscal year ended June 30, 2022 varies by \$7,553,110 from fiscal year ended June 30, 2021. The variance is due to a \$1,828,510 decrease in investment income and a \$5,703,800 variance in RPP pension expense.

CAPITAL ASSETS

At June 30, 2022, the District had \$23,673,762 in capital assets and \$12,155,568 accumulated depreciation, resulting in \$11,518,194 net capital assets. At June 30, 2021, the District had \$22,949,667 in capital assets and \$11,495,098 accumulated depreciation, resulting in \$11,454,569 net capital assets.

A summary of the activity and balances in capital assets is presented in Table C:

Table C

	Balance 6/30/20	Net Additions	Net Retirements	Balance 6/30/21	Net Additions	Net Retirements	Balance 6/30/22
Cost	\$ 22,435,784	\$ 644,197	\$ (130,314)	\$ 22,949,667	\$ 1,309,311	\$ (585,216)	\$ 23,673,762
Acc. Depreciation	(10,971,261)	(632,127)	108,290	(11,495,098)	(675,678)	15,208	(12,155,568)
Capital Assets, Net	\$ 11,464,523	\$ 12,070	\$ (22,024)	\$ 11,454,569	\$ 633,633	\$ (570,008)	\$ 11,518,194

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2022 AND 2021

DRAFT

DEBT ADMINISTRATION

The District has no outstanding debt.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

In November 2018, the residents of the Eastern Coachella Valley voted to expand the Desert Healthcare District to all cities and unincorporated areas of the Coachella Valley. The expansion more than doubled the population and service area. However, the expansion did not include a funding source. The Desert Healthcare District and Foundation continue to seek resources in its efforts to equitably connect District residents to programs and services to meet their healthcare needs.

The Fiscal Year 2023 budgets for the District and the Foundation reflect revenues of \$8,712,988 and \$2,317,000, respectively, and operating expenses of \$8,710,682 and \$2,440,965, respectively. Capital expenditures are budgeted at \$565,000. During the fiscal year ended June 30, 2022, the District and Foundation awarded \$3,284,646 and \$575,000, respectively, in new grants and distributed grants in the amount of \$2,943,305 and 1,186,638, respectively. Projected new grants to be awarded for the fiscal year 2022–2023 amount to \$6,250,000 and \$1,780,000, respectively, and distributions for grants could possibly total \$14,418,784 and 6,087,043, respectively, due to the existing grant liability as of June 30, 2022 and the projected grant awards.

As a result of the COVID-19 pandemic, the Foundation continues to work with a select group of community-based organizations to aid in the education, testing and vaccination efforts related to the virus. Through the County of Riverside, federal funds from the CARES Act and Epidemiology and Laboratory Capacity (ELC) Enhancing Detection funding totals \$3,150,000 to date. The Foundation has applied for additional funding of \$1,200,000.

The District has established a reserve fund of approximately \$62,000,000 to cover grant liabilities, hospital operating expenses for a short period should the lease with Tenet Health System Desert, Inc. terminate prior to May 30, 2027, and seismic or other related facilities costs.

The Hospital is required to meet SB 1953 and OSHPD regulations for seismic retrofit standards by 2030. The District conducted an assessment of the seismic retrofit needs and costs, with an estimate of \$222,000,000, and is reviewing options for completion of the seismic upgrades.

Termination Assets are assets constructed or installed by Tenet Health System in the hospital during the lease period with a net book value or fair market value at the termination of the lease. In accordance with the 1997 Lease, the District is required to purchase the Termination Assets at the lesser of net book value or fair market value. The 1997 Lease provides that the purchase can be satisfied with a 5-year promissory note and also provides the option of a possible extension of the lease if the Termination Assets exceed \$10,000,000.

CONTACTING THE DISTRICT'S MANAGEMENT

Desert Healthcare District
1140 N. Indian Canyon Drive
Palm Springs, CA 92262
(760) 323-6113 Office
(760) 323-6825 Fax
www.dhcd.org Website

DESERT HEALTHCARE DISTRICT

STATEMENTS OF NET POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,116,884	\$ 10,193,578
Investments	12,984,830	22,020,034
Accounts receivable, net	253,350	343,748
Prepaid items and deposits	112,934	80,753
Total current assets	<u>22,467,998</u>	<u>32,638,113</u>
NON-CURRENT ASSETS		
Investments	43,573,125	31,622,090
Capital assets, net	11,518,194	11,454,569
Net pension asset	1,009,246	1,807,032
Total non-current assets	<u>56,100,565</u>	<u>44,883,691</u>
DEFERRED OUTFLOWS		
Deferred Outflows of Resources		
Pension plan	836,699	494,388
Total deferred outflows of resources	<u>836,699</u>	<u>494,388</u>
TOTAL ASSETS	<u>79,405,262</u>	<u>78,016,192</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	441,775	263,325
Grants payable	7,032,067	4,511,626
Compensated absences	80,168	82,975
Disability claims, reserve, current portion	14,803	14,803
Total current liabilities	<u>7,568,813</u>	<u>4,872,729</u>
NON-CURRENT LIABILITIES		
Grants payable	3,520,000	4,990,000
Long-term disability claims reserve	2,982	16,282
Deposits payable	62,205	52,520
Total non-current liabilities	<u>3,585,187</u>	<u>5,058,802</u>
DEFERRED INFLOWS		
Deferred Inflows of Resources		
Pension plan	492,802	675,732
Total deferred inflows of resources	<u>492,802</u>	<u>675,732</u>
TOTAL LIABILITIES	<u>11,646,802</u>	<u>10,607,263</u>
<u>NET POSITION</u>		
Net investment in capital assets	11,518,194	11,454,569
Unrestricted	<u>56,240,266</u>	<u>55,954,359</u>
TOTAL NET POSITION	<u>\$ 67,758,460</u>	<u>\$ 67,408,928</u>

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

DRAFT

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Property taxes	\$ 8,471,194	\$ 7,760,713
Rental income	1,339,960	1,246,013
Other income	<u>232,189</u>	<u>79,034</u>
Total revenues	<u>10,043,343</u>	<u>9,085,760</u>
 OPERATING EXPENSES		
Grant allocations	4,024,467	4,048,655
General expenses	774,950	274,345
Rental expenses	1,107,396	995,974
Salaries and benefits	1,161,703	1,040,389
Legal fees	87,765	147,981
Depreciation	193,105	194,160
Election fees	-	93,494
Other	<u>243,290</u>	<u>246,967</u>
Total operating expenses	<u>7,592,676</u>	<u>7,041,965</u>
 Income from operations	<u>2,450,667</u>	<u>2,043,795</u>
 NONOPERATING INCOME (EXPENSES)		
Investment income (loss)	(1,741,167)	87,343
Investment expenses	(87,423)	(66,623)
Retirement plan / benefits change (see Note 14 - changes in assumptions 2020/2021)	<u>(272,545)</u>	<u>5,431,255</u>
 Total nonoperating income (loss)	<u>(2,101,135)</u>	<u>5,451,975</u>
 Increase in net position	349,532	7,495,770
 NET POSITION		
Beginning of year	<u>67,408,928</u>	<u>59,913,158</u>
 End of year	<u><u>\$ 67,758,460</u></u>	<u><u>\$ 67,408,928</u></u>

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

DRAFT

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from County	\$ 8,452,887	\$ 7,782,929
Cash received from grantor and donors	209,733	44,035
Cash received from rentals and other operating revenues	1,411,209	1,246,660
Cash payments to suppliers for goods and services	(1,521,717)	(1,322,268)
Cash payments to employees for services and benefits	(1,171,055)	(977,881)
Cash payments to grantee	(2,974,026)	(4,295,387)
	<u>4,407,031</u>	<u>2,478,088</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(739,303)	(644,197)
Net cash used by capital and related financing activities	<u>(739,303)</u>	<u>(644,197)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment sales (purchases) - net	(4,744,422)	746,141
Net cash provided (used) by investing activities	<u>(4,744,422)</u>	<u>746,141</u>
	<u>(1,076,694)</u>	<u>2,580,032</u>
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>10,193,578</u>	<u>7,613,546</u>
END OF YEAR	<u>\$ 9,116,884</u>	<u>\$ 10,193,578</u>

-Continued-

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

DRAFT

-Continued-

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 2,450,667	\$ 2,043,795
Adjustments to reconciliation of income from operations to net cash provided by operating activities:		
Depreciation	675,678	632,127
Changes in assets and liabilities:		
(Increase) decrease in assets		
Accounts receivables	90,398	42,845
Prepaid items and deposits	(32,181)	(10,217)
(Decrease) increase in liabilities		
Accounts payable and accrued liabilities	178,450	3,448
Grants payable	1,050,441	(246,732)
Deposits payable	9,685	(9,442)
Compensated absences	(2,807)	34,791
Long-term disability claims reserve	(13,300)	(12,527)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 4,407,031</u></u>	<u><u>\$ 2,478,088</u></u>

(The accompanying notes are an integral part of these financial statements)

STATEMENT OF FIDUCIARY NET POSITION
DESERT HEALTHCARE FOUNDATION
JUNE 30, 2022

DRAFT

WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2021

	Totals	
	2022	2021 (Memorandum Only) <i>Restated</i>
<u>ASSETS</u>		
ASSETS		
Cash and cash equivalents	\$ 516,636	\$ 1,348,623
Grants receivable	2,217,209	1,122,500
Prepaid expenses	3,000	2,500
Accrued interest and dividend receivable	-	17,221
Total current assets	<u>2,736,845</u>	<u>2,490,844</u>
OTHER ASSETS		
Contributions receivable - charitable remainder trusts	188,389	200,809
Investments	<u>4,181,156</u>	<u>5,617,879</u>
Total other assets	<u>4,369,545</u>	<u>5,818,688</u>
TOTAL ASSETS	<u>\$ 7,106,390</u>	<u>\$ 8,309,532</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Current liabilities		
Accounts payable and accrued payroll	\$ 12,973	\$ 144,954
Grants payable - current	<u>795,028</u>	<u>2,010,180</u>
Total current liabilities	<u>808,001</u>	<u>2,155,134</u>
Long-term liabilities		
Grants payable - long-term	<u>200,000</u>	<u>249,356</u>
Total long-term liabilities	<u>200,000</u>	<u>249,356</u>
TOTAL LIABILITIES	<u>1,008,001</u>	<u>2,404,490</u>
NET ASSETS		
Without donor restrictions	399,057	1,683,904
Without donor restrictions - Board designated	1,544,156	1,039,156
With donor restrictions	<u>4,155,176</u>	<u>3,181,982</u>
Total net assets	<u>6,098,389</u>	<u>5,905,042</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,106,390</u>	<u>\$ 8,309,532</u>

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
DESERT HEALTHCARE FOUNDATION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

DRAFT

	2022	2021 (Memorandum Only) <i>Restated</i>
ADDITIONS		
Contributions	\$ 40,275	\$ 189,655
Grants	2,168,605	3,724,999
Bequests	57,080	56,364
Interest and dividends	138,889	185,407
Investment gains	(498,074)	477,291
Change in value - charitable trusts	(12,420)	13,511
TOTAL SUPPORT AND REVENUE	1,894,355	4,647,227
DEDUCTIONS		
Grants and services	1,079,948	3,150,858
Management and general	565,599	834,399
TOTAL EXPENSES	1,645,547	3,985,257
INCREASE IN NET POSITION	248,808	661,970
NET POSITION, BEGINNING OF YEAR as previously stated	5,905,042	1,980,509
PRIOR YEAR RESTATEMENT	(55,461)	3,262,563
NET ASSETS, BEGINNING OF YEAR, restated	5,849,581	5,243,072
NET POSITION, END OF YEAR	\$ 6,098,389	\$ 5,905,042

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Desert Healthcare District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Financial Reporting Entity

The District was organized on December 14, 1948, by a Resolution adopted by the Board of Supervisors, County of Riverside, under the provisions of The Local Hospital District Law (Sections 32000-32314 of the California Health and Safety Code) to provide and operate health care facilities within the area known as the Western Coachella Valley.

Each of the seven members of the District's Board of Directors holds office for a four-year term, which is staggered against the other terms. Elections are by popular vote of the constituents within the designated zone boundaries.

Effective June 29, 1986, the District transferred control of Desert Hospital and all related assets and liabilities to Desert Health Systems, Inc. (System) under the terms of a master lease agreement. The purpose of the transfer was to permit the hospital to operate more competitively and efficiently by becoming a private not-for-profit entity. On December 8, 1988, the System merged with Desert Hospital Corporation (Corporation), the surviving entity. This transaction had no impact with respect to the District.

Until June 1, 1997, the District served as a pass-through entity between the Corporation and the trustee of Hospital Revenue Certificates of Participation issued in 1990 and 1992 and as a recipient of District tax revenues. The District annually pledged the tax revenues it received to the Corporation to be utilized for general corporate purposes. Historically, tax revenues were used to support capital improvement programs.

Effective May 30, 1997, the District entered into a 30-year lease of Desert Hospital with Tenet Health System Desert, Inc. (Tenet). Terms of the lease included payment by Tenet of the Hospital Revenue Certificates of Participation issued in 1990 and 1992 (approximately \$80,000,000) as prepaid rent. Tenet also paid the District \$15,400,000 cash, representing additional prepaid rent. (See Note 2)

As a result of AB2414 and a vote of the residents of the Eastern Coachella Valley in November 2018, the District expanded its boundaries and service area to encompass the broader Coachella Valley. The District has and continues to assess the healthcare needs of the Coachella Valley. The District makes grants to healthcare providers who provide needed healthcare services.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Reporting Entity – Continued

As required by GAAP, these financial statements present the District and its component unit entity for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the District's operations and so data from these units are combined with data of the District. Component units should be included in the reporting entity financial statement using blending method if either of the following criteria are met:

- The component unit's governing body is the same as the governing body of the District
- The component unit provides services entirely, or almost entirely, to the District or otherwise exclusively, or almost exclusively, benefits the District even though it does not provide services directly to it.

Included within the reporting entity as a blended component unit is the following:

Desert Healthcare Foundation (Foundation)

The Foundation is a health and welfare organization created to identify the health care needs of the Desert Healthcare District and to work toward alleviating those needs through various programs and services. The Foundation operates primarily in the Coachella Valley area of Southern California and, as such, is subject to market conditions, which could affect charitable giving and the realization of recorded assets values at various times.

The foundation's condensed financial statements are included in the these financial statements as a Private-Purpose Trust Fund fiduciary fund type.

Complete financial statements of the Foundation can be requested from the District, 1140 North Indian Canyon Drive, Palm Springs, California 92262.

Basis of Accounting and Measurement Focus

Business-Type Activities

The basic financial statements include a Statement of Net Assets, Statement of Activities and Changes in Net Assets, and a Statement of Cash Flows. These statements present summaries of business-type activities for the District.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting and Measurement Focus – Continued

These basic financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the District’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents changes in net assets for the year. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. All proprietary funds are accounted for on a cost of services of “*economic resources*” measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with the activity are included on the Statement of Net Assets. Their reported fund equity presents total net assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. The Statement of Cash Flows is presented with cash, cash equivalents and investments.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Position and a Statement of Changes in Fiduciary Net Position. The District’s Fiduciary fund includes Private Purpose Trust Funds, which account for resources that are being held for the benefits of the District. The Fiduciary fund is accounted for using the accrual basis of accounting.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Foundation’s policy is to apply restricted net assets first.

Cash, Cash Equivalent and Investments

All cash and cash equivalents are considered to be demand deposits, money market funds and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Prepaid Items and Deposits

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and Improvements	40 – 50 years
Furniture and Equipment	3 – 7 years

Compensated Absences

Employees have vested interests in varying levels of vacation and sick leave based on their length of employment. Sick leave is payable only when an employee is unable to work due to personal or family illness. Unused sick leave does not vest and is forfeited upon termination.

Property Tax

The County of Riverside (the County) bills and collects property taxes on behalf of numerous special districts and incorporated cities, including the District. The District's collections of current year's taxes are received through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79 general property taxes are based either on a flat 1% rate applied to the 1975-1976 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-1976 valuation. Taxable values on properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year.

The Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

Property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after this date are subject to accrual and considered available as a resource that can be used to finance the current year operations of the District.

Income Taxes

The District is a political subdivision of the State of California and, as such, is exempt from federal and state income taxes.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurement

The District and Foundation apply Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis in accordance with GASB Statement Nos. 31 and 40.

Net Assets

Net Investment in Capital Assets – this amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws of regulations of other governments.

Unrestricted Net Position – This amount is all net assets that do not meet the definition of “net investment in capital assets,” or “restricted net position.”

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 65, the District recognizes deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. Refer to Notes 9 and 14 for a detailed listing of the deferred outflow of resources that the District has recognized.

Pursuant to GASB Statement No. 65, the District recognizes deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of fund balance/net position by the government that is applicable to a future reporting period. Refer to Note 14 for a detailed listing of the deferred inflow of resources that the District has recognized.

2. LEASE AGREEMENT – TENET HEALTH SYSTEM DESERT, INC.

The District, as described in the Summary of Significant Accounting Policies, entered into a thirty (30) year lease agreement for Desert Regional Medical Center (Hospital) with Tenet Health System Desert, Inc. (Tenet). In the event that Tenet or the District decide to terminate the lease, the District would be responsible for operating the Hospital which would require upfront operating capital of approximately \$125,000,000 to maintain the operations without interruption during the transition period. The District, recognizing this obligation, established an investment fund, with a net value of \$62,580,237 as of June 30, 2022, identified as the Facility Replacement Fund.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

DRAFT

3. CASH AND INVESTMENTS

The cash and investments are classified in the financial statements as shown below:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
District's Statement of Net Position:		
Cash and cash equivalents	\$ 9,116,884	\$ 10,193,578
Investments	56,557,955	53,642,124
Fiduciary Statement of Net Position:		
Cash and cash equivalents	516,636	1,348,623
Investments	<u>4,181,156</u>	<u>5,617,879</u>
 Total Cash and Investments	 <u>\$ 70,372,631</u>	 <u>\$ 70,802,204</u>

Cash and Investments consist
of the following:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash on Hand	\$ 700	\$ 700
Cash in Bank-District	3,094,102	2,185,435
Cash in Bank-Foundation	396,370	1,182,817
Money Market Funds	6,142,348	8,173,249
Investments	<u>60,739,111</u>	<u>59,260,003</u>
 Total Cash and Investments	 <u>\$ 70,372,631</u>	 <u>\$ 70,802,204</u>

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

The table below identifies the investment types that are authorized for the Desert Healthcare District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

3. CASH AND INVESTMENTS – Continued

Investments Authorized by the California Government Code and the District's Investment Policy
(Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
Local Agency Investment Fund (State Pool)	N/A	None	\$65 million
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Repurchase Agreements	1 year	None	None
Bankers' Acceptance (must be dollar denominated)	180 days	40%	30%
Commercial Paper – Pooled Funds	270 days	40%	10%
Commercial Paper – Non-Pooled Funds	270 days	25%	10%
Negotiable Time Certificates of Deposit	5 years	30%	None
Non-negotiable Time Certificates of Deposit	5 years	None	None
State of California and Local Agency Obligations	5 years	None	None
Placement Service Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds and Money Market Mutual Funds	N/A	20%	None

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investments Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	None

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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3. CASH AND INVESTMENTS - Continued

Disclosures Relating to 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 the market interest rates.

One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for distributions.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

As of June 30, 2022

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25 – 36 Months	37 – 48 Months	More than 49 Months
Corporate Bonds*	\$ 1,264,440	\$ 136,519	\$ 153,149	\$ 232,498	\$ 92,783	\$ 649,491
U.S. Government Agencies	2,000,500	2,000,500	-	-	-	-
U.S. Government Agencies*	320,952	-	-	-	-	320,952
U.S. Treasury Notes	54,557,455	10,984,330	6,325,095	37,248,030	-	118,489
U.S. Treasury Notes*	242,659	-	-	124,170	-	-
Domestic Common Stock*	2,353,105	2,353,105	-	-	-	-
Total	<u>\$60,739,111</u>	<u>\$15,474,454</u>	<u>\$ 6,478,244</u>	<u>\$37,604,698</u>	<u>\$ 92,783</u>	<u>\$ 1,088,932</u>

*Held by Foundation

As of June 30, 2021

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25 – 36 Months	37 – 48 Months	More than 49 Months
Corporate Bonds*	\$ 1,715,982	\$ 98,065	\$ 183,865	\$ 181,029	\$ 284,063	\$ 968,960
U.S. Government Agencies	9,201,090	7,093,980	2,107,110	-	-	-
U.S. Government Agencies*	500,904	-	-	-	-	500,904
U.S. Treasury Notes	44,441,034	14,926,054	11,311,030	5,058,170	13,145,780	-
U.S. Treasury Notes*	635,020	49,291	160,869	41,988	139,105	243,767
Mutual Funds-Open Ended*	269,243	269,243	-	-	-	-
Domestic Common Stock*	2,496,730	2,496,730	-	-	-	-
Total	<u>\$59,260,003</u>	<u>\$24,933,363</u>	<u>\$13,762,874</u>	<u>\$ 5,281,187</u>	<u>\$13,568,948</u>	<u>\$ 1,713,631</u>

*Held by Foundation

DESERT HEALTHCARE DISTRICT
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3. CASH AND INVESTMENTS - Continued

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a national recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of the fiscal year end for each investment type.

As of June 30, 2022

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA/AA	A	BBB/BB	Not Rated
Corporate Bonds*	\$ 1,264,440	N/A	\$ -	\$ 174,717	\$ 510,169	\$ 579,554	\$ -
U.S. Government Agencies	2,000,500	N/A	-	2,000,500	-	-	-
U.S. Government Agencies*	320,952	N/A	-	320,952	-	-	-
U.S. Treasury Notes	54,557,455	N/A	54,557,455	-	-	-	-
U.S. Treasury Notes*	242,659	N/A	242,659	-	-	-	-
Domestic Common Stock*	2,353,105	N/A	-	-	-	-	2,353,105
Total	<u>\$60,739,111</u>		<u>\$54,800,114</u>	<u>\$ 2,496,169</u>	<u>\$ 510,169</u>	<u>\$ 579,554</u>	<u>\$ 2,353,105</u>

*Held by Foundation. No Foundation policy establishing minimum legal rating

As of June 30, 2021

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA/AA	A	BBB/BB	Not Rated
Corporate Bonds*	\$ 1,715,982	N/A	\$ -	\$ 189,027	\$ 599,214	\$ 927,741	\$ -
U.S. Government Agencies	9,201,090	N/A	-	9,201,090	-	-	-
U.S. Government Agencies*	500,904	N/A	-	500,904	-	-	-
U.S. Treasury Notes	44,441,034	N/A	44,441,034	-	-	-	-
U.S. Treasury Notes*	635,020	N/A	635,020	-	-	-	-
Mutual Funds-Open Ended*	269,243	N/A	-	-	-	-	269,243
Domestic Common Stock*	2,496,730	N/A	-	-	-	-	2,496,730
Total	<u>\$59,260,003</u>		<u>\$45,076,054</u>	<u>\$ 9,891,021</u>	<u>\$ 599,214</u>	<u>\$ 927,741</u>	<u>\$ 2,765,973</u>

*Held by Foundation. No Foundation policy establishing minimum legal rating

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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3. CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer.

There are no investments at June 30, 2022 that represent 5% or more of total District investments (other than U.S. Treasury Notes).

There are three investments at June 30, 2021 that represent 5% or more of total District investments (other than U.S. Treasury Notes). These investments are:

Federal Home Loan Banks:	\$3,090,290 with various maturity dates through June 30, 2023, and interest rates of 1.875-3.25%.
Federal Home Loan Mortgage Corporation:	\$3,073,670 with various maturity dates through June 30, 2023, and interest rates of 2.375-2.750%.
Federal National Mortgage Association:	\$3,037,130 with various maturity dates through June 30, 2022, and interest rates of 1.875-2.000%.

Custodial Credit Risk

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2022 and 2021, the District's deposits with financial institutions in excess of federal depository insurance limits are legally required by the California Government Code, to collateralize the District's deposits as noted above.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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3. CASH AND INVESTMENTS - Continued

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on similar observable asset either directly or indirectly, which may include inputs in markets that not considered active;
- Level 3: Investments reflect prices based upon unobservable sources.

Custodial Credit Risk

The District has the following recurring fair value measurements;
 At June 30, 2022 and 2021, the District's cash, cash equivalents, and investments classified by risk category consisted of the following:

As of June 30, 2022

		Fair Value Measurement Using		
		Quoted Prices in Active Markets For Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value	Total	Assets (Level 1)		
Debt Securities				
Corporate Bonds	\$ 1,264,440	\$ 1,264,440	\$ -	\$ -
U.S. Government Agencies	2,321,452	2,321,452	-	-
U.S. Treasury Notes	54,800,114	54,800,114	-	-
Domestic Common Stock	2,353,105	2,353,105	-	-
	<u>\$ 60,739,111</u>	<u>\$ 60,739,111</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2021

		Fair Value Measurement Using		
		Quoted Prices in Active Markets For Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value	Total	Assets (Level 1)		
Debt Securities				
Corporate Bonds	\$ 1,715,982	\$ 1,715,982	\$ -	\$ -
U.S. Government Agencies	9,701,994	9,701,994	-	-
U.S. Treasury Notes	45,076,054	45,076,054	-	-
Mutual Funds-Open Ended	269,243	269,243	-	-
Domestic Common Stock	2,490,730	2,490,730	-	-
	<u>\$ 59,260,003</u>	<u>\$ 59,260,003</u>	<u>\$ -</u>	<u>\$ -</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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4. CAPITAL ASSETS

Business-Type Activities

At June 30, 2022 and 2021 the capital assets of the business-type activities consisted of the following:

<u>June 30, 2022</u>	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2022</u>
Non-depreciable assets:				
Land	\$ 3,859,100	\$ -	\$ -	\$ 3,859,100
Construction in progress	<u>729,813</u>	<u>562,563</u>	<u>(570,008)</u>	<u>722,368</u>
Total non-depreciable assets	<u>4,588,913</u>	<u>562,563</u>	<u>(570,008)</u>	<u>4,581,468</u>
Depreciable assets:				
Building and improvements	18,247,013	735,961	(14,501)	18,968,473
Furniture and equipment	<u>113,742</u>	<u>10,787</u>	<u>(707)</u>	<u>123,822</u>
Total depreciable assets	18,360,754	746,748	(15,208)	19,092,295
Less accumulated depreciation	<u>(11,495,098)</u>	<u>(675,678)</u>	<u>15,208</u>	<u>(12,155,568)</u>
Total depreciable assets, net	<u>6,865,656</u>	<u>71,070</u>	<u>-</u>	<u>6,936,726</u>
Total capital assets, net	<u>\$11,454,569</u>	<u>\$ 633,633</u>	<u>\$ (570,008)</u>	<u>\$ 11,518,194</u>

Depreciation expense consists of operating expense depreciation of \$193,105 and rental expense depreciation of \$482,573.

<u>June 30, 2021</u>	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>
Non-depreciable assets:				
Land	\$ 3,859,100	\$ -	\$ -	\$ 3,859,100
Construction in progress	<u>188,254</u>	<u>563,583</u>	<u>(22,024)</u>	<u>729,813</u>
Total non-depreciable assets	<u>4,047,354</u>	<u>563,583</u>	<u>(22,024)</u>	<u>4,588,913</u>
Depreciable assets:				
Building and improvements	18,192,372	77,676	(23,036)	18,247,013
Furniture and equipment	<u>196,058</u>	<u>2,938</u>	<u>(85,254)</u>	<u>113,742</u>
Total depreciable assets	18,388,430	80,614	(108,290)	18,360,754
Less accumulated depreciation	<u>(10,971,261)</u>	<u>(632,127)</u>	<u>108,290</u>	<u>(11,495,098)</u>
Total depreciable assets, net	<u>7,417,169</u>	<u>(551,513)</u>	<u>-</u>	<u>6,865,656</u>
Total capital assets, net	<u>\$11,464,523</u>	<u>\$ 12,070</u>	<u>\$ (22,024)</u>	<u>\$ 11,454,569</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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4. CAPITAL ASSETS - Continued

Depreciation expense consists of operating expense depreciation of \$194,160 and rental expense depreciation of \$437,967.

5. RESTRICTED NET POSITION

The District had \$0 of restricted net position at June 30, 2022 and 2021.

6. SPLIT INTEREST AGREEMENTS - FOUNDATION

At June 30, 2022 and 2021, the split interest agreements of the fiduciary fund consisted of the following:

	<u>2022</u>	<u>2021</u>
Contribution receivable – charitable remainder trusts	<u>\$ 188,389</u>	<u>\$ 200,809</u>

Charitable Reminder Trusts

The Foundation was named beneficiary to two additional charitable remainder unitrusts (whose trustees are someone other than the Foundation), all of which are recorded at fair market value. The general terms of the trusts are as follows:

Trust 4 (dated October 3, 1989): The lesser of the trust income or 8% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, 50% of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for cancer treatment, or for general purposes if a cure for cancer has been found.

At December 31, 2018, which is the most current information available, the estimated present value of future cash flows was \$126,022 for each year June 30, 2022 and 2021.

Trust 7 (dated May 17, 1990): 8.5% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, all of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for general purposes. The estimated present value of future cash flows at June 30, 2022 and 2021 was \$62,367 and \$74,787, respectively.

7. GRANTS

The District has granted awards to various healthcare providers that provide needed healthcare services. Awards not fully funded in the current fiscal year are carried over to the subsequent fiscal year. At June 30, 2022 and 2021, the total grant awards payable were \$10,552,067 and \$9,501,626, respectively. Total grants expense for the years ended June 30, 2022 and 2021 amounted to \$4,024,467 and \$4,048,655, respectively.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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7. GRANTS - Continued

The Foundation has granted awards to various healthcare providers that provide needed healthcare services. At June 30, 2022 and 2021 the total grant awards payable were \$995,028 and \$2,259,536, respectively. Total grants and services expense for the years ended June 30, 2022 and 2021 amounted to \$1,079,948 and \$3,150,858 respectively.

8. LONG-TERM DISABILITY CLAIMS RESERVE

Long-term disability claims were self-insured by the Corporation. Claimants' payments are administered by the District who processes payments made pursuant to the plan. Claimants are paid either to age 65 or until they return to work. At June 30, 2022 and 2021, the long-term disability claims reserves were as follows:

	<u>Balance at</u> <u>July 1, 2021</u>	<u>Claims</u> <u>Paid</u>	<u>Changes in</u> <u>Estimates</u>	<u>Balance at</u> <u>June 30, 2022</u>	<u>Due Within</u> <u>One Year</u>
Claims payable	\$ 31,085	\$ (14,803)	\$ 1,503	\$ 17,785	\$ 14,803

	<u>Balance at</u> <u>July 1, 2020</u>	<u>Claims</u> <u>Paid</u>	<u>Changes in</u> <u>Estimates</u>	<u>Balance at</u> <u>June 30, 2021</u>	<u>Due Within</u> <u>One Year</u>
Claims payable	\$ 43,612	\$ (14,803)	\$ 2,276	\$ 31,085	\$ 14,803

9. POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS

A. General Information about the OPEB Plan

Plan Description – The District's defined benefit OPEB plan, provided OPEB for the two retired Board of Directors of the District. The plan is a single employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided – Following is a description of the retiree benefit plan:

	<u>Board Members</u>
Benefit types provided	Medical and dental
Duration of benefits	Lifetime
Dependent coverage	Yes
District contribution %	100%
District cap	None

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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9. POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS- Continued

Employees Covered by Benefit Terms – At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees receiving benefits	2
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	0

During the year ended June 30, 2021, the covered retiree passed away and therefore there was no remaining OPEB liability to the retiree and his spouse at June 30, 2022 or 2021.

B. Total OPEB Liability

Actuarial Assumptions and Other Inputs – The total OPEB liability in the June 30, 2019 actuarial valuation (used for the June 30, 2020 liability) was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

<i>Inflation</i>	2.75 percent
<i>Investment return/discount rate</i>	3.50 percent net of expenses. Based on the Bond Buyer 20 Bond Index
<i>Healthcare cost trend rates</i>	4.00 percent
<i>Payroll increase</i>	2.75 percent
<i>The mortality assumptions</i>	Based on the 2009 CalPERS Mortality for Retired Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Cost for retiree coverage Based on actual employer contribution. Liabilities for active participants are based on the first year costs. Subsequent years' costs are based on first year costs adjusted for trend and limited by any District contribution caps.

C. Changes in the Total OPEB Liability

Balance at June 30, 2020	\$ 67,364
<u>Changes for the fiscal year</u>	
Benefit payments	(21,400)
Write off remaining liability	(45,964)
Net changes	(67,364)
Balance at June 30, 2021	<u>\$ -</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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10. INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; and natural disasters for which the District carries commercial insurance. The District purchases commercial insurance to cover the risk of loss for property, business liability, and medical payments.

11. RENTAL INCOME

The District rents commercial office suites subject to lease terms ranging from three to five years. Rental income includes the base monthly rental payments plus the common area maintenance fee. Rental income consisted of the following for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Base rent	\$ 931,379	\$ 898,879
Common area maintenance	<u>408,581</u>	<u>347,134</u>
	<u>\$1,339,960</u>	<u>\$1,246,013</u>

The five fiscal year minimum rental schedule follows:

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Base rent	\$ 970,318	\$ 641,711	\$ 407,977	\$ 183,200	\$ 114,184
Common area maintenance	385,230	245,805	149,660	66,711	40,357
	<u>\$ 1,355,548</u>	<u>\$ 887,516</u>	<u>\$ 557,637</u>	<u>\$ 249,911</u>	<u>\$ 154,541</u>

12. COMMITMENT AND CONTINGENCIES

Earthquake Retrofit

Senate Bill 1953 imposes certain requirements that acute care hospitals would be required to meet within a specified time. These requirements include conducting seismic evaluations. The deadline was extended to January 1, 2030. After January 1, 2030, all hospitals must be determined to be in compliance.

Litigation

In the ordinary course of operations, the District is subject to other claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters will not materially affect its financial condition.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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13. 401(K) RETIREMENT PLAN

The District converted from a 401(k) retirement plan to a 457(B) and 401(A) retirement plans. A 457(B) (employee contribution) and 401(A) (employer contribution) retirement plans were determined to be more appropriate for a governmental agency. The 401(K) plan was terminated and the 457(B) and 401(A) retirement plans became effective October 1, 2014.

The District contributes a dollar for dollar match for the first 4% of employee salary deferral and two dollars match for each additional dollar of the next 2% of employee salary deferral. The District's match contribution for the years ended June 30, 2022 and 2021 were \$105,943 and \$92,834, respectively.

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN

Effective July 1, 1971, Desert Hospital Corporation (Corporation) established a defined benefit pension plan (Plan) covering eligible employees of Desert Hospital. The Corporation was dissolved as of May 31, 1997 and the Plan has been frozen as of that date. The Desert Healthcare District (the "District") has assumed sponsorship of the Plan. Refer to the Plan's separate statements for more detail information.

Vesting

All participants of the Plan have been 100% vested since May 31, 1997.

Account Balances

All participants of the Plan are eligible to request a distribution or rollover of their account balance upon retirement or termination of their employment from Desert Regional Medical Center.

Contributions

There have been no contribution requirements by the District since May 31, 1997. Participant contributions to the Plan are not permitted. In the most recent actuarial valuation as of June 30, 2022, the Plan's independent actuary determined that the actuarial value of the Plan's net pension asset was \$1,009,246 at June 30, 2022 and \$1,807,032 at June 30, 2021.

In the report it was recommended to the District an actuarially determined contribution of \$0 and \$366,275 for the years ended June 30, 2022 and 2021, respectively. The District's board of directors elected not to fund the Plan during 2022 or 2021.

Administration and Trustee

The Plan is administered by the District's Finance and Administrative Committee (the Committee). The Committee is selected by the District's board of directors. All administrative expenses are paid by the Plan or at the discretion of the District.

Pursuant to the terms of the Plan, the District entered into a trust agreement with US Bank N. A. to provide for the investment, reinvestment, administration and distribution of contributions made under the Plan.

DESERT HEALTHCARE DISTRICT
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JUNE 30, 2022 AND 2021

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14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN - Continued

Schedule of Funding Progress

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2006	\$ 5,236,383	\$ 9,566,663	\$ 4,330,280	55%	N/A	N/A
6/30/2007	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2008	4,552,074	9,312,581	4,760,507	49%	N/A	N/A
6/30/2009	3,351,366	9,141,403	5,790,037	37%	N/A	N/A
6/30/2010	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2011	3,522,125	7,921,342	4,399,217	45%	N/A	N/A
6/30/2012	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2013	2,797,614	7,357,700	4,560,086	38%	N/A	N/A
6/30/2014	2,656,607	10,603,012	7,946,405	25%	N/A	N/A
6/30/2015	2,405,256	10,149,205	7,743,949	24%	N/A	N/A
6/30/2016	1,924,238	11,568,940	9,644,702	17%	N/A	N/A
6/30/2017	5,344,173	8,219,294	2,875,121	65%	N/A	N/A
6/30/2018	5,189,834	8,467,627	3,277,793	61%	N/A	N/A
6/30/2019	4,913,907	8,309,530	3,395,623	59%	N/A	N/A
6/30/2020	4,783,963	9,388,217	4,604,254	51%	N/A	N/A
6/30/2021	5,314,972	3,507,940	(1,807,032)	152%	N/A	N/A
6/30/2022	4,597,838	3,588,592	(1,009,246)	128%	N/A	N/A

No actuarial report or estimation using actuarial methodology were prepared for June 30, 2012, 2010, and 2007.

General Information about the Desert Hospital Retirement Protection Plan (Plan) Pension Plan

Plan Description

Effective July 1, 1971, Desert Hospital Corporation (Corporation) established a defined benefit pension plan (Plan) covering eligible employees of Desert Hospital. The Corporation was dissolved as of May 31, 1997 and the Plan has been frozen as of that date.

Employees Covered

At June 30, 2022 and 2021, the following employees were covered by the benefit terms:

	2022	2021
Inactive plan members if beneficiaries currently receiving benefits	7	7
Inactive plan members entitled to but not yet receiving benefits	59	59
Active plan members	88	88
Total Employees Covered	154	154

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN - Continued

General Information about the Desert Hospital Retirement Protection Plan (Plan) Pension Plan (Continued)

Net Pension (Asset) Liability

The District's net pension (asset) liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. A summary of principal assumptions and methods used to determine the net pension (asset) liability is shown below.

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuations were determined using the following actuarial assumptions:

Inflation	2.75%
Discount rate	6.24% net of pension plan investment expense, including inflation.
Measurement date	June 30, 2022, based on valuation date of June 30, 2022.
Ad hoc cost-of-living increases	Not applicable
Mortality	Pre-Retirement: None Post-Retirement: Pub G Sex distinct mortality tables projected generationally with Scale MP-2020
Experience study	Given the size of the plan, there is not enough data available to conduct a credible experience study. The assumptions are not anticipated to produce significant cumulative actuarial gains or losses over time. The liabilities and data are analyzed each year in order to identify any trends of experience deviating from the actuarial assumptions. The plan is frozen to new participants and benefit accruals.
Retirement	Actives-100% retirement at age 65. Terminated vested – Lump sums are assumed to be taken immediately. Annuities are assumed to commence at age 65.
Termination	Participants* are assumed to work for the Desert Regional Medical Center operated by Tenet Health System Desert, Inc. until Normal Retirement Age.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

General Information about the Desert Hospital Retirement Protection Plan (Plan) Pension Plan (Continued)

Net Pension (Asset) Liability (Continued)
Actuarial Assumptions (Continued)

Changes in assumptions 2020/2021

Management and the actuarial firm analyzed the actuarial assumptions of the plan and determined a change in assumptions was warranted in calculating total pension liability. Previous actuarial valuations included the assumption that all plan participants would receive annuities with payments for life. In reality, plan participants traditionally elect a lump sum distribution at the time of termination of employment from the hospital. The valuation based on annuities generated an excessively large total pension liability that was not reflective of the actual distribution of plan assets. A change in assumption to reflect participants electing a lump sum in 95% of cases, resulted in reducing total pension liability from \$9,388,217 (06/30/2020) to \$3,507,940 (06/30/2021). There were no changes in assumptions during the 2021/2022 year.

Other assumptions

See actuarial assumptions provided in the June 30, 2022 funding valuation for other relevant assumptions.

*Former Desert Hospital employees employed with Tenet Health System Desert, Inc.

Discount Rate

The discount rate used to measure the total pension liability was 6.24 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the Plan stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 6.24 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.24 percent is applied to all plans in the Plan. The stress test results are presented in a detailed report called "GASB Crossover Testing Report".

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

General Information about the Desert Hospital Retirement Protection Plan (Plan) Pension Plan (Continued)

Net Pension (Asset) Liability (Continued)

Actuarial Assumptions (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 6.24 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 25.13 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. The Plan checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The Plan expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through the 2021-22 fiscal year. The Plan will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class.

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Expected Rate of Return

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Target Allocation	Long-term expected real rate of return
Domestic fixed income securities	35.0%	1.40%
Domestic equities	49.0	4.00
International equities	11.0	4.30
Cash	5.0	-

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

General Information about the Desert Hospital Retirement Protection Plan (Plan) Pension Plan (Continued)

Net Pension (Asset) Liability (Continued)

Expected Rate of Return (Continued)

The changes in the Net Pension (Asset) Liability for the Plan follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability/(Asset) (c) = (a) – (b)
Balance, June 30, 2021	\$ 3,507,940	\$ 5,314,972	\$ (1,807,032)
Changes in Recognized for the Measurement Period:			
Employer Contributions	-	-	-
Interest on the Total Pension Liability	229,605		229,605
Differences between Expected and Actual Experience	-	-	-
Changes in Assumptions	23,267	-	23,267
Net Investment Income (Loss) **	-	(512,520)	512,520
Benefit Payments, including Refunds of Employee Contributions	(172,220)	(172,220)	-
Administrative Expenses	-	(32,394)	32,394
Net Changes during 2021-22	80,652	(717,134)	797,786
Balance, June 30, 2022 *	\$ 3,588,592	\$ 4,597,838	\$ (1,009,246)

* The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

** Net of administrative expenses.

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The Following presents the net pension asset of the Plan as of the measurement date, calculated using the discount rate of 6.24 percent, as well as what the net pension asset would be if it were calculated using a discount rate that is 1 percentage-point lower (5.24 percent) or 1 percentage-point higher (7.24 percent) than the current rate:

	<u>1% Decrease (5.24%)</u>	<u>Current Discount Rate (6.24%)</u>	<u>1% Increase (7.24%)</u>
Net pension asset	\$ (953,692)	\$ (1,009,246)	\$ (1,056,806)

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

Changes in the Net Pension (Asset) Liability

Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports.

The Plan's Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2022, the District recognized pension expense of \$272,545. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net differences between projected and actual		
Earnings on pension plan investments	836,699	(492,802)
Changes in assumptions	-	-
Total	<u>\$ 836,699</u>	<u>\$ (492,802)</u>

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2023	\$ 84,991
2024	64,863
2025	14,888
2026	<u>179,155</u>
Total	<u>\$ 343,897</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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15. RELATED PARTY TRANSACTIONS

The Desert Healthcare District and the Desert Healthcare Foundation are related parties. The Foundation is organized to provide health and welfare assistance to Coachella Valley residents in need. The District donated funds of \$2,000,000 and \$0 to the Foundation, to help fulfill their purpose during June 30, 2022 and 2021, respectively. The District also provided the Foundation with office space and personnel of \$534,792 and \$415,872 during June 30, 2022 and 2021, respectively.

Grants payable to the Foundation as of June 30, 2022 amounted to \$2,000,000. As of June 30, 2022 accounts receivable from the Foundation were \$1,083.

16. SUBSEQUENT EVENTS

The District and Foundation evaluated all potential subsequent events as of October 11, 2022 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2022 or as of October 11, 2022 that require disclosure to the financial statements.

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REQUIRED SUPPLEMENTAL INFORMATION

DESERT HEALTHCARE DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2022

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Note 2 – Schedule of Changes in Net OPEB Liability and Related Ratios – Last 10 Fiscal Years*

Measured Period	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>
Total OPEB Liability				
Service Cost	\$ -	\$ -	\$ -	\$ -
Changes in assumptions	-	-	(3,245)	(908)
Interest on the Total Pension Liability	-	-	2,957	3,684
Benefit Payments	-	(21,400)	(20,321)	(23,490)
Writeoff remaining liability	-	(45,964)	-	-
Net Change in total Pension Liability	-	(67,364)	(20,609)	(20,714)
Total OPEB Liability - Beginning		67,364	87,973	108,687
Total OPEB Liability - Ending (a)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,364</u>	<u>\$ 87,973</u>
Plan Fiduciary Net Position				
Contribution from the Employer	\$ -	\$ 21,400	\$ 20,321	\$ 23,490
Net investment income	-	-	-	-
Benefit Payments	-	(21,400)	(20,321)	(23,490)
Administrative Expenses	-	-	-	-
Net Change in Plan Fiduciary Net Position	-	-	-	-
Plan Fiduciary Net Position - Beginning	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Net OPEB Liability - Ending (a) - (b)	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 67,364</u>	 <u>87,973</u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 <u>0.00%</u>	 <u>0.00%</u>	 <u>0.00%</u>	 <u>0.00%</u>
 Covered - Employee Payroll	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>
 Net OPEB Liability as Percentage of	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>

Notes to Schedule:

During the year ended June 30, 2021, the covered retiree passed away and therefore there was no remaining OPEB liability to the retiree and his spouse.

Changes of Assumption: Investment/Discount rate changed from 3.80% to 3.50% from 2018 to 2019 measurement period.

*Fiscal year 2018 was the first year of implementation, therefore only four years are shown.

DESERT HEALTHCARE DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2022

**Prepared for the Desert Healthcare District, a Single-Employer Defined Benefit Pension Plan
as of June 30, 2022**

Note 1 – Schedule of Changes in the Net Pension (Asset) Liability and Related Ratios – Last 10 Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement Period	2021-2022	2020-2021	2018-2019	2018-2019	2016-2017	2016-2017	2014-2015	2013-2014
Total Pension Liability								
Interest on total pension liability	\$ 229,605	\$ 342,696	\$ 374,170	\$ 385,951	\$ 399,298	\$ 321,990	\$ 397,980	\$ 418,035
Differences between expected and actual experience	-	(1,123,559)	-	(802,110)	-	(437,093)	(493,455)	(537,276)
Changes in assumptions	23,267	(4,503,151)	912,601	769,854	315,705	(2,852,163)	1,944,607	-
Benefit payments, including refunds of employee contributions	(172,220)	(596,263)	(208,084)	(511,792)	(466,670)	(382,380)	(459,397)	(304,566)
Net change in total pension liability	80,652	(5,880,277)	1,078,687	(158,097)	248,333	(3,349,646)	1,389,735	(423,807)
Total pension liability - beginning	3,507,940	9,388,217	8,309,530	8,467,627	8,219,294	11,568,940	10,179,205	10,603,012
Total pension liability - ending (a)	3,588,592	3,507,940	9,388,217	8,309,530	8,467,627	8,219,294	11,568,940	10,179,205
Plan fiduciary net position								
Employer contributions	-	-	-	-	-	3,400,000	-	-
Net investment income (loss)	(512,520)	1,160,972	109,665	268,701	347,969	426,828	(6,638)	71,101
Benefit payments	(172,220)	(596,263)	(208,084)	(511,792)	(466,670)	(382,380)	(459,397)	(304,566)
Administrative expenses	(32,394)	(33,700)	(31,524)	(32,836)	(35,638)	(24,513)	(14,983)	(17,886)
Net change in plan fiduciary net position	(717,134)	531,009	(129,943)	(275,927)	(154,339)	3,419,935	(481,018)	(251,351)
Plan fiduciary net position - beginning	5,314,972	4,783,963	4,913,907	5,189,834	5,344,173	1,924,238	2,405,256	2,656,607
Plan fiduciary net position - ending (b)	4,597,838	5,314,972	4,783,963	4,913,907	5,189,834	5,344,173	1,924,238	2,405,256
Net pension (asset) liability - ending (a) - (b)	\$ (1,009,246)	\$ (1,807,032)	\$ 4,604,254	\$ 3,395,623	\$ 3,277,793	\$ 2,875,121	\$ 9,644,702	\$ 7,773,949
Plan fiduciary net position as percentage of the total pension liability	128.12%	151.51%	50.96%	59.14%	61.29%	65.02%	16.63%	23.63%
Covered - employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered - employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Changes in Assumptions:

- 2017 to 2018 Investment rate of return, including inflation, and net of investment expenses changed from 5.00 % to 4.70%.
- 2017 to 2018 Discount rate changed from 5.00% to 4.70%.
- 2018 to 2019 Discount rate changed from 4.70% to 4.56%.
- 2018 to 2019 Investment rate of return, including inflation, and net of investment expenses changed from 4.70% to 4.56%.
- 2019 to 2020 Discount rate changed from 4.56% to 3.77%.
- 2020 to 2021 Discount rate changed from 3.77% to 6.71%
- 2021 to 2022 Discount rate changed from 6.71% to 6.24%

* Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.

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DESERT HOSPITAL
RETIREMENT PROTECTION PLAN

PALM SPRINGS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2022 AND 2021

DRAFT

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Directors
of the Desert Hospital Retirement Protection Plan
Palm Springs, California

Qualified Opinion

We have audited the accompanying financial statements of Desert Hospital Retirement Protection Plan (the Plan), an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statement of net assets available for benefits and of accumulated plan benefits as of June 30, 2022, and the related statements of changes in net assets available for benefits and changes in accumulated plan benefits for the year then ended, and the related notes to the financial statements.

In our opinion, except for the matter discussed in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets available for benefits and changes in accumulated plan benefits of Desert Hospital Retirement Protection Plan as of June 30, 2022, or the changes in its net assets available for benefits or the changes in its accumulated plan benefits for the year then ended in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*.

Basis for Qualified Opinion

Desert Hospital Retirement Protection Plan's financial statements do not present certain disclosures and supplemental schedules required to be in accordance with generally accepted accounting principles in the United States of America due to the Plan's status as a "frozen plan" as of May 31, 1997 (Note 1).

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Desert Hospital Retirement Protection Plan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Prior Period Financial Statements

The financial statements of Desert Hospital Retirement Protection Plan as of June 30, 2021 were audited by other auditors whose report dated October 14, 2021, expressed a qualified opinion on those statements because of the departure from generally accepted accounting principles described in the Basis for Qualified Opinion section of our report.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Desert Hospital Retirement Protection Plan 's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Management is also responsible for maintaining a current plan instrument, including all plan amendments; administering the plan; and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Governmental Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Desert Hospital Retirement Protection Plan 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Desert Hospital Retirement Protection Plan 's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022 on our consideration of the Plan's internal control over financial reporting and on our tests of compliance with laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting.

Required Supplementary Information

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

La Quinta, CA
October 11, 2022

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS AND OF ACCUMULATED
PLAN BENEFITS
JUNE 30, 2022 AND 2021**

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	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash	<u>\$ 212,589</u>	<u>\$ 148,112</u>
Investments, at fair value		
U.S. Government securities	342,878	557,359
Corporate equity securities	561,296	637,246
Corporate debt securities	492,046	449,841
Mutual funds	<u>2,989,543</u>	<u>3,524,051</u>
Total investments	<u>4,385,763</u>	<u>5,168,497</u>
Interest and dividends receivable	<u>6,866</u>	<u>7,125</u>
Total assets	<u>4,605,218</u>	<u>5,323,734</u>
<u>LIABILITIES</u>		
Accrued trustee fees	<u>7,380</u>	<u>8,762</u>
<u>NET POSITION RESTRICTED FOR PENSION</u>	<u>\$ 4,597,838</u>	<u>\$ 5,314,972</u>

(The accompanying notes are an integral part of these financial statements)

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND
CHANGES IN ACCUMULATED PLAN BENEFITS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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	2022	2021
ADDITIONS TO NET ASSETS		
Contributions	\$ -	\$ -
Investment income		
Net (depreciation) appreciation in fair value of investments	(129,864)	151,450
Dividend income	81,290	66,373
Interest income and other income	27,830	39,545
Net gain (loss) from sale of investments	(491,776)	903,604
Total additions to assets	(512,520)	1,160,972
<u>DEDUCTIONS FROM NET ASSETS</u>		
Distributions of benefits to participants	172,220	596,263
Administrative expenses	32,394	33,700
Total deductions from assets	204,614	629,963
NET (DECREASE) INCREASE	(717,134)	531,009
NET POSITION AVAILABLE FOR BENEFITS:		
BEGINNING OF YEAR	5,314,972	4,783,963
END OF YEAR	\$ 4,597,838	\$ 5,314,972

(The accompanying notes are an integral part of these financial statements)

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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1. PLAN STATUS

From June 1986 to May 1997, the Desert Hospital Corporation (the Corporation), a California not for profit public benefit corporation, operated Desert Hospital under a lease agreement with the Desert Healthcare District (the District). The District is a hospital district under California law, created under California's Health and Safety Code.

On May 31, 1997, after the Corporation and the District discontinued their lease agreement for the operation of Desert Hospital, the Corporation dissolved, and the District entered into a lease agreement with Tenet Health System Desert, Inc. concerning the operation of Desert Hospital, which is now known as Desert Regional Medical Center. As part of the dissolution process, the Corporation transferred certain assets and liabilities to the District, and the District assumed sponsorship of the Desert Hospital Retirement Protection Plan (the Plan). The Plan has been frozen since May 31, 1997.

The District is a political subdivision of the State of California, as identified in section 4021(b)(2) of the Employee Retirement Income Savings Act (ERISA). Accordingly, the Plan is excluded from coverage under section 4021(b)(2) of ERISA.

A final Form 5500 was filed for the fiscal year ended June 30, 1998.

The Plan has reported to the California State Controller's Office beginning with the fiscal year ended June 30, 1999.

2. PLAN DESCRIPTION

General

As discussed in note 1 above, the Plan has been frozen since May 31, 1997. The Plan was originally established in 1971 as a defined benefit plan covering all eligible employees of Desert Hospital.

Vesting

All participants of the Plan have been 100% vested since May 31, 1997.

Account Balances

All participants of the Plan are eligible to request a distribution or rollover of their account balance upon retirement or termination of their employment from Desert Regional Medical Center.

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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2. PLAN DESCRIPTION – (Continued)

Contributions

There have been no contribution requirements by the District since May 31, 1997. Participant contributions to the Plan are not permitted. The most recent actuarial valuation as of June 30, 2022 by the Plan's independent actuary determined that the actuarial value of the Plan's net pension asset was \$1,009,246 and \$1,807,032 at June 30, 2022 and 2021, respectively. The actuary recommended to the District an actuarially determined contribution of \$0 and \$366,275 for the years ended June 30, 2022 and 2021, respectively.

Administration and Trustee

The Plan is administered by the District's Finance and Administrative Committee (the Committee). The Committee is selected by the District's board of directors. All administrative expenses are paid by the Plan or at the discretion of the District.

Pursuant to the terms of the Plan, the District entered into a trust agreement with U.S. Bank N. A. to provide for the investment, reinvestment, administration and distribution of contributions made under the Plan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. In that respect, the statements are presented on an accrual basis.

Use of Estimates

The preparation of the Plan's financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and when applicable, disclosures of contingent assets and liabilities. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Federal Income Taxes

The Committee obtained an updated determination letter in March 2007 from the Internal Revenue Service stating that the Plan and its amendments are exempt from Federal income taxes under section 410(a) of the Internal Revenue Code (the IRC) as a qualified plan. Therefore, no provision for income taxes has been provided in the Plan's financial statements.

Reporting

Due to the Plan's status as a "frozen Plan", certain disclosures and supplemental schedules have been omitted from the accompanying financial statements.

4. CASH AND INVESTMENTS

Cash and securities held in the investment portfolio are in the custody of U.S. Bank, N.A., the Plan's trustee. State statute and Board policies allow investments consisting of government, corporate and international bonds, domestic and international equities, mutual funds and other investments.

Investments of the Plan are stated at fair value as confirmed by the trustee as of the date of the statement of plan net assets.

The Plan's investments are categorized below:

Investment Type	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 212,589	\$ 212,589	\$ 148,112	\$ 148,112
Investments				
U. S. Government securities	356,163	342,878	539,155	557,359
Corporate equity securities	360,035	561,296	336,165	637,246
Corporate debt securities	516,423	492,046	440,457	449,841
Mutual funds	<u>2,617,647</u>	<u>2,989,543</u>	<u>2,343,952</u>	<u>3,524,051</u>
Investments total	<u>3,850,268</u>	<u>4,385,763</u>	<u>3,659,729</u>	<u>5,168,497</u>
Total cash and investments	<u>\$ 4,062,857</u>	<u>\$ 4,598,352</u>	<u>\$ 3,807,841</u>	<u>\$ 5,316,609</u>

DESERT HOSPITAL RETIREMENT PROTECTION PLAN**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2022 AND 2021****DRAFT****4. CASH AND INVESTMENTS – (Continued)****Disclosure relating to 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 the market interest rates. One of the ways that the Plan manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for distributions.

Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Plan's investments by maturity:

As of June 30, 2022

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25 – 36 Months	37 – 48 Months	More than 49 Months
Equity Based Mutual Funds	\$ 2,053,149	\$ 2,053,149	\$ -	\$ -	\$ -	\$ -
Fixed Income Mutual Funds	936,394	936,394	-	-	-	-
Corporate Bonds	492,046	49,956	200,733	-	49,116	192,241
U.S. Government Bonds	243,179	-	-	-	-	243,179
U.S. Treasury Note	99,699	-	99,699	-	-	-
Foreign Stock	34,813	34,813	-	-	-	-
Domestic Common Stock	526,483	526,483	-	-	-	-
Total	<u>\$ 4,385,763</u>	<u>\$ 3,600,795</u>	<u>\$ 300,432</u>	<u>\$ -</u>	<u>\$ 49,116</u>	<u>\$ 435,420</u>

As of June 30, 2021

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25 – 36 Months	37 – 48 Months	More than 49 Months
Equity Based Mutual Funds	\$ 3,016,955	\$ 3,016,955	\$ -	\$ -	\$ -	\$ -
Fixed Income Mutual Funds	507,096	507,096	-	-	-	-
Corporate Bonds	449,841	68,562	51,639	213,690	-	115,950
U.S. Government Bonds	401,529	50,612	-	-	-	350,917
U.S. Treasury Note	155,830	50,092	-	105,738	-	-
Foreign Stock	41,174	41,174	-	-	-	-
Domestic Common Stock	596,072	596,072	-	-	-	-
Total	<u>\$ 5,168,497</u>	<u>\$ 4,330,563</u>	<u>\$ 51,639</u>	<u>\$ 319,428</u>	<u>\$ -</u>	<u>\$ 466,867</u>

DESERT HOSPITAL RETIREMENT PROTECTION PLAN**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2022 AND 2021****DRAFT****4. CASH AND INVESTMENTS – (Continued)****Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the Plan's investment policy, and the actual rating as of fiscal year end for each investment type.

As of June 30, 2022

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA/AA	A	BBB	Not Rated
Equity Based Mutual Funds	\$ 2,053,149	N/A	\$ -	\$ -	\$ -	\$ -	\$ 2,053,149
Fixed Income Mutual Funds	936,394	N/A	-	-	-	-	936,394
Corporate Bonds	492,046	A	-	148,138	150,129	193,779	-
U.S. Government Bonds	243,179	A	-	-	243,179	-	-
U.S. Treasury Note	99,699	N/A	99,699	-	-	-	-
Foreign Stock	34,813	N/A	-	-	-	-	34,813
Domestic Common Stock	526,483	N/A	-	-	-	-	526,483
Total	<u>\$ 4,385,763</u>		<u>\$ 99,699</u>	<u>\$ 148,138</u>	<u>\$ 393,308</u>	<u>\$ 193,779</u>	<u>\$ 3,550,839</u>

As of June 30, 2021

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA/AA	A	BBB	Not Rated
Equity Based Mutual Funds	\$ 3,016,955	N/A	\$ -	\$ -	\$ -	\$ -	\$ 3,016,955
Fixed Income Mutual Funds	507,096	N/A	-	-	-	-	507,096
Corporate Bonds	449,841	A	-	158,686	157,827	133,328	-
U.S. Government Bonds	401,529	A	-	50,612	350,917	-	-
U.S. Treasury Note	155,830	N/A	155,830	-	-	-	-
Foreign Stock	41,174	N/A	-	-	-	-	41,174
Domestic Common Stock	596,072	N/A	-	-	-	-	596,072
Total	<u>\$ 5,168,497</u>		<u>\$ 155,830</u>	<u>\$ 209,298</u>	<u>\$ 508,744</u>	<u>\$ 133,328</u>	<u>\$ 4,161,297</u>

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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4. CASH AND INVESTMENTS – (Continued)

Concentration of Credit Risk

The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer. There are two investments at June 30, 2022 that represent 5% or more of total Plan investments. These investments are:

2469 shares of IShares S&P 500 Value Etf valued at \$399,389
3727 shares of Vanguard Short-term Invst grade #539 valued at \$375,688

There are five investments at June 30, 2021 that represent 5% or more of total Plan investments. These investments are:

5982 shares of IShares S&P 500 Growth Etf valued at \$435,071
2706 shares of IShares S&P 500 Value Etf valued at \$399,514
6537 shares of Vanguard Ftsc Developed Etf valued at \$366,786
765 shares of Vanguard S&P:500 Eft valued at \$301,043
2561 shares of Schwab US Large Cap Eft valued at \$266,267

Custodial Credit Risk

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

As of June 30, 2022, there were no District deposits with financial institutions in excess of federal depository insurance limits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Plan's investment policy do not contain legal or policy requirement that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities.

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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4. CASH AND INVESTMENTS – (Continued)

Fair Value Measurements

The plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principals recognize a three-tiered fair value hierarchy, as follows

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The Plan has the following recurring fair value measurements as of June 30, 2022:

		<u>Fair Value Measurement Using</u>			
<u>Investment by fair value</u>	<u>Total</u>	<u>Quoted prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Debt Securities					
US Government Issues	\$ 342,878	\$ 99,699	\$ 243,179	\$ -	-
Corporate Issues	492,046	-	492,046	-	-
Mutual Funds – Equity	2,053,149	2,053,149	-	-	-
Mutual Funds – Fixed Income	936,394	-	936,394	-	-
Domestic Common Stock	526,483	526,483	-	-	-
Foreign Stock	34,813	34,813	-	-	-
Total	<u>\$ 4,385,763</u>	<u>\$ 2,714,144</u>	<u>\$ 1,671,619</u>	<u>\$ -</u>	-

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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4. CASH AND INVESTMENTS – (Continued)

Fair Value Measurements – (Continued)

The Plan has the following recurring fair value measurements as of June 30, 2021:

		<u>Fair Value Measurement Using</u>		
<u>Investment by fair value</u>	<u>Total</u>	<u>Quoted prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt Securities				
US Government Issues	\$ 557,359	\$ 155,829	\$ 401,530	\$ -
Corporate Issues	449,841	-	449,841	-
Mutual Funds – Equity	3,016,955	3,016,955	-	-
Mutual Funds – Fixed Income	507,096	-	507,096	-
Domestic Common Stock	596,072	596,072	-	-
Foreign Stock	41,174	41,174	-	-
Total	\$ 5,168,497	\$ 3,810,030	\$ 1,358,467	\$ -

5. ACTUARIAL ASSUMPTIONS

The total pension liability as of June 30, 2022 was determined using the following actuarial assumptions:

Inflation	2.75%
Discount rate	6.24%, net pension plan investment expense, including inflation.
Measurement date	June 30, 2022, based on a valuation date of June 30, 2022.
Ad hoc cost-of-living increases	Not applicable
Mortality	Pre-Retirement: None Post-Retirement: Pub G–2010 Sex distinct mortality tables projected generationally with Scale MP-2020
Experience Study	Given the size of the plan, there is not enough data available to conduct a credible experience study. The assumptions are not anticipated to produce significant cumulative actuarial gains or losses over time. The liabilities and data are analyzed each year in order to identify any trends of experience deviating from the actuarial assumptions. The plan is frozen to new participants and benefit accruals.

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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5. ACTUARIAL ASSUMPTIONS – (Continued)

Retirement	Actives- 100% retirement at age 65. Terminated Vested- Lump sums are assumed to be taken immediately. Annuities are assumed to commence at age 65.
Termination	Participants* are assumed to work for the Desert Regional Medical Center operated by Tenet Health System Desert, Inc. until Normal Retirement Age.
Changes in assumptions 2020/2021	Management and the actuarial firm analyzed the actuarial assumptions of the plan and determined a change in assumptions was warranted in calculating total pension liability. Previous actuarial valuations included the assumption that all plan participants would receive annuities with payments for life. In reality, plan participants traditionally elect a lump sum distribution at the time of termination of employment from the hospital. The valuation based on annuities generated an excessively large total pension liability that was not reflective of the actual distribution of plan assets. A change in assumption to reflect participants electing a lump sum in 95% of cases, resulted in reducing total pension liability from \$9,388,217 (06/30/2020) to \$3,507,940 (06/30/2021). There were no changes in assumptions during the 2021/2022 year.
Other assumptions	See actuarial assumptions provided in the June 30, 2022 funding valuation for other relevant assumptions.

*Former Desert Hospital employees employed with Tenet Health System Desert, Inc.

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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6. NET PENSION (ASSET) LIABILITY OF THE PLAN

Schedule of Changes in Net Pension (Asset) Liability and Related Ratios

Total pension liability:	2022	2021
Service Cost	\$ -	\$ -
Interest	229,605	342,696
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(1,123,559)
Changes of assumptions	23,267	(4,503,151)
Benefit payments, including refunds of member contributions	(172,220)	(596,263)
Net change in total pension liability	80,652	(5,880,277)
Total pension liability – beginning	3,507,940	9,388,217
Total pension liability – ending (a)	<u>\$ 3,588,592</u>	<u>\$ 3,507,940</u>
Plan fiduciary net position		
Contributions – employer	\$ -	\$ -
Net investment income (loss)	(512,520)	1,160,972
Benefit payments, including refunds of member contributions	(172,220)	(596,263)
Administrative expenses	(32,394)	(33,700)
Net change in plan fiduciary net position	<u>(717,134)</u>	<u>531,009</u>
Plan fiduciary net position – beginning	5,314,972	4,783,963
Plan fiduciary net position – ending (b)	4,597,838	5,314,972
Net pension (asset) liability – ending (a) – (b)	<u>\$ (1,009,246)</u>	<u>\$ (1,807,032)</u>
Plan fiduciary net position as a percentage of the total pension (asset) liability	128.12%	151.51%
Covered – employee payroll	N/A	N/A
Net pension liability as percentage of covered – employee payroll	N/A	N/A

Discount Rate and Net Pension Asset Sensitivity

1. Discount Rate

The discount rate used to measure the total pension liability was 6.24%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between the actuarially determined contribution rates and member rates. Professional judgement on future contributions has been applied in those cases where contribution patterns deviate from the actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments to current plan members. Therefore, the long-term expected rate of return 6.24% on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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6. NET PENSION (ASSET) LIABILITY OF THE PLAN - (Continued)

2. Sensitivity of the Net Pension Asset to Changes in the Discounted Rate

The following presents the net pension asset, calculated using the discount rate of 6.24%, as well as what the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower 5.24% or 1-percentage-point higher 7.24% than the current rate:

	<u>1% Decrease</u> <u>5.24%</u>	<u>Current Discount</u> <u>Rate 6.24%</u>	<u>1% Increase</u> <u>7.24%</u>
Net pension (asset)	\$ (953,692)	\$ (1,009,246)	\$ (1,056,806)

Summary

Plan membership

The total pension liability was determined based on the plan membership as of June 30,

	<u>2022</u>	<u>2021</u>
Inactive plan members if beneficiaries currently receiving benefits	7	7
Inactive plan members entitled to but not yet receiving benefits	59	59
Active plan members	88	88
	<u>154</u>	<u>154</u>

Net Pension (Asset) Liability

The components of the net pension (asset) liability at June 30,

	<u>2022</u>	<u>2021</u>
Total pension liability	\$ 3,588,592	\$ 3,507,940
Plan fiduciary	(4,597,838)	(5,314,972)
Net pension (asset) liability	<u>\$ (1,009,246)</u>	<u>\$ (1,807,032)</u>
Plan fiduciary net position as a % of the total pension liability	128.12%	151.51%

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions

	<u>2022</u>	<u>2021</u>
Inflation	2.75%	2.75%
Salary Increases	N/A	N/A
Investment rate of return	6.24%	6.71%
Discount rate	6.24%	6.71%

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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7. SUBSEQUENT EVENTS

The Plan evaluated all potential subsequent events as October 11, 2022 when the financial statements were authorized and available to be issued. No subsequent events or transaction were identified after June 30, 2022 or as of October 11, 2022 that require disclosure to the financial statements.

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SUPPLEMENTARY INFORMATION

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2022 AND 2021

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Funded) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2006	\$ 5,236,383	\$ 9,566,663	\$ 4,330,280	55%	N/A	N/A
6/30/2007	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2008	4,552,074	9,312,581	4,760,507	49%	N/A	N/A
6/30/2009	3,351,366	9,141,403	5,790,037	37%	N/A	N/A
6/30/2010	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2011	3,522,125	7,921,342	4,399,217	45%	N/A	N/A
6/30/2012	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2013	2,797,614	7,357,700	4,560,086	38%	N/A	N/A
6/30/2014	2,656,607	10,603,012	7,946,405	25%	N/A	N/A
6/30/2015	2,405,256	10,149,205	7,743,949	24%	N/A	N/A
6/30/2016	1,924,238	11,568,940	9,644,702	17%	N/A	N/A
6/30/2017	5,344,173	8,219,294	2,875,121	65%	N/A	N/A
6/30/2018	5,189,835	8,467,627	3,277,792	61%	N/A	N/A
6/30/2019	4,913,906	8,309,530	3,395,624	59%	N/A	N/A
6/30/2020	4,783,963	9,388,217	4,604,254	51%	N/A	N/A
6/30/2021	5,314,972	3,507,940	(1,807,032)	152%	N/A	N/A
6/30/2022	4,597,838	3,588,592	(1,009,246)	128%	N/A	N/A

No actuarial reports or estimation using actuarial methodology were prepared for June 30, 2012, 2010 and 2007.

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DESERT HEALTHCARE FOUNDATION

PALM SPRINGS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS AND
REPORTS ON INTERNAL CONTROL,
COMPLIANCE AND OTHER MATTERS

JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Directors
of the Desert Healthcare Foundation
Palm Springs, California

Report on the Audit of the Schedule of Expenditures of Federal Awards

Opinion

We have audited the schedule of expenditures of federal awards of Desert Healthcare Foundation for the year ended June 30, 2022, and the related notes (the schedule).

In our opinion, the accompanying schedule of expenditures of federal awards presents fairly, in all material respects, the expenditures of federal awards of Desert Healthcare Foundation for the year ended June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedule section of our report.

We are required to be independent of Desert Healthcare Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Schedule

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

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedule.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedule.
- Obtain an understanding of internal control relevant to the audit 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 Desert Healthcare Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

October 11, 2022
La Quinta, CA

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

Board of Directors
Desert Healthcare Foundation
Palm Springs, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Desert Healthcare Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Desert Healthcare Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Desert Healthcare Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Desert Healthcare Foundation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

Desert Healthcare Foundation's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Desert Healthcare Foundation's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Desert Healthcare Foundation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

October 11, 2022

La Quinta, CA

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Desert Healthcare Foundation
Palm Springs, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Desert Healthcare Foundation's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Desert Healthcare Foundation's major federal programs for the year ended June 30, 2022. Desert Healthcare Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Desert Healthcare Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost principles, and audit requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standard and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Desert Healthcare Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Desert Healthcare Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulation, rules, and provisions of contract or grant agreements applicable to Desert Healthcare Foundation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Desert Healthcare Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Desert Healthcare Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Desert Healthcare Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Desert Healthcare Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Desert Healthcare Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

La Quinta, CA

October 11, 2022

DESERT HEALTHCARE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Agency/Program	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed-through from Riverside County			
Epidemiology and Laboratory Capacity for Infectious Diseases -			
COVID-19	93.323		\$ <u>1,481,551</u> *
Total U.S. Department of Health and Human Services			
Total Expenditures of Federal Awards			\$ <u>1,481,551</u>

** Note: It was determined in the 21/22 fiscal year audit that \$237,946 was indicated as expended in the June 30, 2021 Schedule of Federal Expenditures of Federal Awards (SEFA), however, the expenses related to that amount were not incurred until the 21/22 fiscal year. Therefore, the amount was indicated above correctly and the prior SEFA should have excluded this amount. The change does not represent a compliance issue and merely a timing difference as the funds were properly expended for the intended purpose.*

DESERT HEALTHCARE FOUNDATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2022

DRAFT

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Desert Healthcare Foundation under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Desert Healthcare Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Desert Healthcare Foundation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: INDIRECT COST RATE

Desert Healthcare Foundation has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

DESERT HEALTHCARE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

DRAFT

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Desert Healthcare Foundation were prepared in accordance with GAAP.
2. One significant deficiency relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Desert Healthcare Foundation, were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and Internal Control Over Compliance Required By The Uniform Guidance. No material weaknesses are reported.
5. The auditor's report on compliance for Desert Healthcare Foundation expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that should be disclosed in accordance with 2 CFR section 200.516(a).
7. The programs tested as major programs were:

<u>Program Name</u>	<u>CFDA#</u>
Epidemiology and Laboratory Capacity for Infectious Diseases – COVID- 19	93.323

8. The dollar threshold used for distinguishing between Type A and B programs was \$750,000.
9. Desert Healthcare Foundation was determined not to be low-risk auditee. *(Since the Foundation has not had a single audit in the past two years they are required to be considered "not low-risk")*

DESERT HEALTHCARE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

DRAFT

B. Findings – Financial Statements Audit

Finding No. 2022-001: Grants Payable and Restricted Net Assets (Significant Deficiencies)

Criteria: Desert Healthcare Foundation awards grants to other organizations. At the time the award is approved by the Board of Directors, the Organization incurs the grant payable liability. Additionally, when donors or granting agencies provide the Organization with funding for a specific purpose, those funds are recognized as restricted revenue and released from restrictions when expended for the specific purpose.

Condition: The Organization was recording a liability for grants payable before the Board of Directors had awarded the funds to a specific organization in an effort to show that the funds had been designated by the Board of Directors or restricted by the donor or granting agency, for the purpose of distribution to other organizations. The Organization had not implemented Accounting Standards Update No. 2018-08 (ASU 2018-08), Note-for-Profit Entities (Topic 958) that was effective for the Organization during the year ended June 30, 2020.

Effect or Potential Effect: The way the Organization had been recording the grant expenses causes an issue with the proper timing of when the revenue and expense is recorded. When the Organization received restricted grants, the revenues were recorded. However, a corresponding grants payable (and expense) was recorded to signify the restriction of the funds. The result of this treatment caused overstated/understated net assets depending on the year. The result of implementing the accounting standard for the year ending June 30, 2022, resulted in a restatement for prior year's net assets totaling \$3,445,048 and adjustments totaling \$1,546,077 that reduced grant expense for the year. However, it is important to indicate that the Organization has always been properly tracking restrictions of funds and properly adhering to the restrictions placed by donors or granting agencies.

Recommendation: The Organization has already implemented the process for proper accounting treatment for the funds.

View of Responsible Officials and Planned Corrective Action: The Organization was audited by the same audit personnel in FY20 and FY21 to which the deficiency was not identified. Management recognizes its oversight of implementing the revised standard. The correction has been made for the proper treatment of restricted grants and grants payable.

DESERT HEALTHCARE FOUNDATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

DRAFT

C. Findings And Questioned Costs – Major Federal Award Programs Audit

There were no findings and questioned costs for the year ended June 30, 2021.

FEDERAL COMPLIANCE

There were no prior year findings and questioned costs for the year ended June 30, 2021.

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DESERT HEALTHCARE FOUNDATION

PALM SPRINGS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Directors
of the Desert Healthcare Foundation
Palm Springs, California

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Desert Healthcare Foundation (Foundation), is not-for-profit organization and component unit of Desert Healthcare District, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Desert Healthcare Foundation. as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Desert Healthcare Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the 2019/2020 year the Foundation adopted accounting guidance related to the presentation of donor restricted grants/contributions versus grant liabilities/deferred revenue. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Desert Healthcare Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Desert Healthcare Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Desert Healthcare Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022, on our consideration of Desert Healthcare Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Desert Healthcare Foundation's internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Desert Healthcare Foundation's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statement of Desert Healthcare Foundation for the year ended June 30, 2021, were audited by other auditors whose report was dated October 14, 2021, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

October 11, 2022
La Quinta, CA

DESERT HEALTHCARE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

DRAFT

WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2021

	Totals	
	2022	2021 (Memorandum Only) <i>Restated</i>
<u>ASSETS</u>		
ASSETS		
Cash and cash equivalents	\$ 516,636	\$ 1,348,623
Grants receivable	2,217,209	1,122,500
Prepaid expenses	3,000	2,500
Accrued interest and dividend receivable	-	17,221
Total current assets	<u>2,736,845</u>	<u>2,490,844</u>
OTHER ASSETS		
Contributions receivable - charitable remainder trusts	188,389	200,809
Investments	<u>4,181,156</u>	<u>5,617,879</u>
Total other assets	<u>4,369,545</u>	<u>5,818,688</u>
TOTAL ASSETS	<u><u>\$ 7,106,390</u></u>	<u><u>\$ 8,309,532</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Current liabilities		
Accounts payable and accrued payroll	\$ 12,973	\$ 144,954
Grants payable - current	<u>795,028</u>	<u>1,772,234</u>
Total current liabilities	<u>808,001</u>	<u>1,917,188</u>
Long-term liabilities		
Grants payable - long-term	<u>200,000</u>	<u>249,356</u>
Total long-term liabilities	<u>200,000</u>	<u>249,356</u>
TOTAL LIABILITIES	<u>1,008,001</u>	<u>2,166,544</u>
NET ASSETS		
Without donor restrictions	399,057	1,683,904
Without donor restrictions - Board designated	1,544,156	1,039,156
With donor restrictions	<u>4,155,176</u>	<u>3,419,928</u>
Total net assets	<u>6,098,389</u>	<u>6,142,988</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,106,390</u></u>	<u><u>\$ 8,309,532</u></u>

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE FOUNDATION**STATEMENT OF ACTIVITIES**
FOR THE YEAR ENDED JUNE 30, 2022**DRAFT****WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

			Totals	
	Without Donor Restrictions	With Donor Restrictions	2022	2021 (Memorandum Only) <i>Restated</i>
REVENUES AND GAINS				
Contributions	\$ 40,275	\$ -	\$ 40,275	\$ 189,655
Grants	168,605	2,000,000	2,168,605	3,724,999
Bequests	57,080	-	57,080	56,364
Interest and dividends	138,889	-	138,889	185,407
Investment (loss) gain	(498,074)	-	(498,074)	477,291
Change in value - charitable trust	-	(12,420)	(12,420)	13,511
Net assets released from restrictions	<u>1,252,332</u>	<u>(1,252,332)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>1,159,107</u>	<u>735,248</u>	<u>1,894,355</u>	<u>4,647,227</u>
EXPENSES				
Grants and social services	1,317,894	-	1,317,894	2,912,912
Management and general	<u>565,599</u>	<u>-</u>	<u>565,599</u>	<u>834,399</u>
Total expenses	<u>1,883,493</u>	<u>-</u>	<u>1,883,493</u>	<u>3,747,311</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(724,386)</u>	<u>735,248</u>	<u>10,862</u>	<u>899,916</u>
NET ASSETS, BEGINNING OF YEAR				
as previously stated	2,723,060	3,419,928	6,142,988	1,980,509
PRIOR YEAR RESTATEMENT	<u>(55,461)</u>	<u>-</u>	<u>(55,461)</u>	<u>3,262,563</u>
NET ASSETS, BEGINNING OF YEAR, restated	<u>2,667,599</u>	<u>3,419,928</u>	<u>6,087,527</u>	<u>5,243,072</u>
NET ASSETS, END OF YEAR	<u>\$ 1,943,213</u>	<u>\$ 4,155,176</u>	<u>\$ 6,098,389</u>	<u>\$ 6,142,988</u>

(The accompanying notes are an integral part of these financial statements)

DRAFT

DESERT HEALTHCARE FOUNDATION**STATEMENT OF FUNCTIONAL EXPENSES**
FOR THE YEAR ENDED JUNE 30, 2022**WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021**

			Totals	
				2021
				(Memorandum
				Only)
	Grants and	Management		
	Services	and General	2022	<i>Restated</i>
Grants and social services	\$ 1,317,894	\$ -	\$ 1,317,894	\$ 2,912,912
Management and general expenses	-	565,599	565,599	834,399
TOTAL FUNCTIONAL EXPENSES	\$ 1,317,894	\$ 565,599	\$ 1,883,493	\$ 3,747,311

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

DRAFT

WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2021

	2022	2021 (Memorandum Only) <i>Restated</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 10,862	\$ 899,916
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Unrealized loss (gain) on investments	498,074	(477,291)
(Increase) decrease in operating assets:		
Grants receivable	(1,094,709)	(1,122,500)
Prepaid expenses	(500)	500
Contributions receivable	12,420	(13,511)
Accrued interest and dividends receivable	17,221	1,710
Increase (decrease) in operating liabilities		
Accounts payable and accrued payroll	(131,981)	44,487
Grants payable	(1,026,562)	989,929
Net cash (used) provided by operating activities	(1,715,175)	323,240
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases	(1,455,823)	(1,410,165)
Proceeds from the sale of investments	2,339,011	1,290,259
Net cash provided (used) by investing activities	883,188	(119,906)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(831,987)	203,334
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,348,623	1,145,289
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 516,636	\$ 1,348,623

(The accompanying notes are an integral part of these financial statements)

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Desert Healthcare Foundation (Foundation), a not-for-profit organization, is a health and welfare organization created to identify the health care needs of the Desert Healthcare District (District) and to work toward treating those needs through various programs and services. The Foundation is a component unit of the District due to the nature and significance of their relationship with the District. The Foundation operates primarily in the Coachella Valley area of Southern California and, as such, is subject to market conditions, which could affect charitable giving and the realization of recorded asset values at various times.

Basis of Accounting

The Foundation uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Financial Statement Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as follows:

Net Assets without Donor Restrictions: Net assets that is not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets Without Donor Restrictions – Board Designated: These funds represent all resources over which the Board of Directors has discretionary control for use in operating the Foundation. The Board of Directors designated funds were \$1,544,156 and \$1,039,156 as of June 30, 2022 and 2021, respectively.

Net assets with Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the non-profit organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Foundation has net assets with donor restrictions of \$4,155,176 and \$3,419,928 at June 30, 2022 and 2021, respectively. (See note 6)

Donated Facilities and Services

The District has provided to the Foundation the use of its office facilities at no charge. For the fiscal year ended June 30, 2022 the District allocated to the Foundation related to personnel charges. (See note 7) The value of the on-site facilities is not reflected in these statements, as they do not meet the criteria for recognition.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Contributions

Unconditional contributions are recognized when pledged and recorded as net position without donor restrictions or net position with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net position with donor restrictions are reclassified to net position without donor restrictions and reported in the statement of activities as net position released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net position without donor restriction support.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

Investments are stated at fair market value. Realized and unrealized gains and losses on investments are recognized as changes in net assets in the periods in which they occur.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and from California franchise taxes under related state tax regulations and classified by the Internal Revenue Service as other than a private foundation. The Foundation may be subject to tax on income from any unrelated business operations. The Foundation does not currently have any unrelated business operations. The federal and State income tax returns are subject to examination over three and four years, respectively.

Memorandum Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the prior year, from which the summarized information was derived.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

2. IMPLEMENTATION OF ACCOUNTING STANDARDS UPDATE AND PRIOR YEAR RESTATEMENT

FASB issued Accounting Standards Update No. 2018-08 (ASU 2018-08), Not-for-Profit- Entities (Topic 958). The purpose of ASU 2018-08 is to clarify and improve the scope and accounting guidance for contributions received and contributions made. This guidance provides clarification on the definition of exchange transactions with the intention to improve consistency in the treatment of revenue recognition for Not-for-Profit-Entities. Under this guidance contributions received with donor-imposed restrictions limiting the purpose, time or use of contributions are recognized in the period received. The amendment in ASU has been applied on a retrospective basis, increasing donor restricted net assets by \$3,419,928 and decreasing net assets without donor restriction by \$157,365 for a total restatement of total net assets of \$3,262,563, as of June 30, 2020. Additionally, a restatement to correct expenses accrued for but not incurred totaling \$237,946, combined with the implementation of ASU 2018-08 for a net decrease to net assets without donor restriction of \$55,461 for the year ended June 30, 2021.

3. FAIR VALUE MEASUREMENTS

The Foundation applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. At June 30, 2022 and 2021, all marketable securities are measured at fair value on a recurring basis and were valued at Level 1 inputs. Fair value for marketable securities at June 30, 2022 and 2021 were \$4,181,156 and \$5,617,879 (see Note 4).

4. CASH AND INVESTMENTS

Demand Deposits

The carrying amounts at June 30, 2022, of the Foundation's cash deposits were \$516,636. Occasionally, the Foundation's cash balance in banks exceeds the Federal Deposit Insurance Corporation's insurance limits but management does not expect any significant credit risk relating to cash.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

4. CASH AND INVESTMENTS – (Continued)

Investments

Investments consisted of the following at June 30:

	2022			2021		
	Cost	Fair Value	Unrealized Gain (Loss)	Cost	Fair Value	Unrealized Gain
Corporate bonds	\$ 1,353,521	\$ 1,264,440	\$ (89,081)	\$ 1,643,690	\$ 1,715,982	\$ 72,292
US Government agencies	639,060	563,611	(75,449)	1,104,883	1,135,924	31,041
Mutual funds	-	-	-	266,476	269,243	2,767
Marketable securities	1,879,958	2,353,105	473,147	1,694,882	2,496,730	801,848
Total investments	\$ 3,872,539	\$ 4,181,156	\$ 308,617	\$ 4,709,931	\$ 5,617,879	\$ 907,948

5. CHARITABLE REMAINDER TRUSTS

The Foundation was named beneficiary to two charitable remainder unitrusts (whose trustees are someone other than the Foundation), all of which are recorded at fair value. The balances at June 30, 2022 and 2021 amounted to \$188,389 and \$200,809, respectively, and general terms of the trusts are as follows:

Trust 4 (dated October 3, 1989): The lesser of the trust income or 8% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, 50% of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for cancer treatment, or for general purposes if a cure for cancer has been found. At December 31, 2018, which is the most current information available, the estimated present value of future cash flows was \$126,022.

Trust 7 (dated May 17, 1990): 8.5% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, all of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for general purposes. The estimated present value of future cash flows at June 30, 2022 and 2021 were \$62,367 and \$74,787, respectively.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

6. NET ASSETS – WITH DONOR RESTRICTIONS

Donor restricted net assets consists of the following purposes as of June 30:

	<u>2022</u>	<u>2021</u>
<u>Subject to expenditure for specified purpose:</u>		
Behavioral Health Initiative Collective Fund	\$ 3,297,169	\$ 1,752,356
Pulmonary Services	530,944	558,427
Healthcare Needs of Black Communities	-	525,000
Charitable Remainder Trust	126,022	126,022
West Valley Homelessness Initiative	71,557	73,214
Health Portal	67,117	72,176
CARES/ELC -Administrative Costs	-	237,946
<u>Subject to the passage of time:</u>		
Charitable Remainder Trust	<u>62,367</u>	<u>74,787</u>
Net Assets – with donor restrictions	<u>\$ 4,155,176</u>	<u>\$ 3,419,928</u>

7. RELATED PARTY TRANSACTIONS

The Foundation and the Desert Healthcare District are related parties. The Foundation is organized to provide health and welfare assistance to Coachella Valley residents in need. The District donated funds of \$2,000,000 to the Foundation during the year ended June 30, 2022 to help fulfill their purpose. During the year ended June 30, 2022 the District provided the Foundation with office space and personnel of \$534,792, of which \$366,776 is included in management and general expense and \$168,016 is included in grants and social services expense. During the year ended June 30, 2021, the District provided the Foundation with office space and personnel of \$415,872, which is included in management and general expense.

Grants receivable from the District as of June 30, 2022 amounted to \$2,000,000 and accounts payable to the District in the amount of \$1,083.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

8. GRANTS PAYABLE

Grants payable consisted of the following for the fiscal year ended June 30:

<u>Grants</u>	<u>2022</u>	<u>2021</u>
Improving Healthcare Access in Black Communities	\$ 610,000	\$ -
Pulmonary Services	189,337	236,590
One Futures – Black and African American		
Scholarship	-	155,000
West Valley Homelessness Initiative	22,500	522,500
Other	-	5,000
	<u>821,837</u>	<u>919,090</u>
 <u>COVID-19 Related Grants</u>		
Lideres Campesinas	35,000	200,000
El Sol Neighborhood Education Center	40,305	170,000
Todec Legal Center	48,688	170,000
Alianza Coachella Valley	6,901	131,250
Vision Y Compromiso	-	130,000
Pueblo Unido CDC	-	125,000
Youth Leadership Institute	5,153	91,250
Galilee Center	37,144	85,000
	<u>173,191</u>	<u>1,102,500</u>
 Total grants payable	<u>\$ 995,028</u>	<u>\$ 2,021,590</u>
 Grants payable - current	\$ 795,028	\$ 1,772,234
Grants payable – long-term	200,000	249,356
	<u>\$ 995,028</u>	<u>\$ 2,021,590</u>

During the year ended June 30, 2021, the Foundation entered into subrecipient agreement with the County of Riverside for a total of \$2,400,000 for the time period of October 29, 2020 through March 31, 2022. The agreement was amended in April 1, 2022 to extend the contract term to December 31, 2022 and increase the contract by \$750,000 to a total of \$3,150,000. The Foundation will operate as a Fiscal Intermediary for the County of Riverside to distribute funds to Community Based Organization (CBOs) and Faith-Based Organization (FBOs) in the Coachella Valley. The funding intends to support the work of CBOs and FBOs in the prevention, identification, and mitigation of COVID-19, and to assist with coordinating collaborative efforts to address COVID-19 related needs in communities that have been disproportionately impacted by disease.

DESERT HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

DRAFT

8. GRANTS PAYABLE – (Continued)

The funding being passed through the County of Riverside is federally funded by two sources “Coronavirus Aid, Relief, and Economic Security (CARES) Act and Center for Disease Control and Prevention Epidemiology and Laboratory Capacity (ELC) Enhancing Detection”. The Foundation has provided \$2,063,191 in funding to CBOs in the Coachella Valley and \$521,809 remains to be provided to the CBOs. As part of the subrecipient agreement, the Foundation will receive a total of \$565,000 to cover administrative costs which represents approximately 18% of the funds provided to the CBOs.

9. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022 are as follows:

Financial assets:	
Cash	\$ 516,636
Investments	4,181,156
Grants receivable	2,217,209
Accrued interest and dividend receivable	-
Contributions receivable – CRT	188,389
Total financial assets	<u>7,103,390</u>
Less financial assets held to meet donor-imposed restrictions:	
Donor-restricted funds (Note 6)	(4,155,176)
Board designated funds (Note 1)	(1,544,156)
Interest in charitable remainder trust (Note 5)	(188,389)
Amount available for general expenditures within one year	<u>\$ 1,215,669</u>

The above table reflects donor-restricted and board-designated funds as unavailable because it is the Foundation’s intention to invest resources for the long-term support of the organization. However, in the case of need, the Board of Directors could appropriate resources from the purpose-restricted funds available for general use. As part of the Foundation’s liquidity management plan, they invest cash in excess of daily requirements in short-term investments (Note 4).

10. SUBSEQUENT EVENTS

The Foundation evaluated all potential subsequent events as of October 11, 2022 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2022 or as of October 11, 2022 that require disclosure to the financial statements.



DESERT HEALTHCARE
DISTRICT & FOUNDATION

Date: October 11, 2022
To: Finance & Administration Committee
Subject: Addendum #1 to Consulting Services Agreement for NPO Centric - Results Based Accountability (RBA) and Clear Impact – No Cost Time Extension to 09/30/23

Staff Recommendation: Consideration to approve Addendum #1 to the Consulting Services Agreement for NPO Centric - Results Based Accountability (RBA) and Clear Impact – a No-Cost Time Extension to 09/30/23.

Background:

- In October 2021 the Board of Directors approved the 2021-2026 five-year strategic plan.
- Goal#4 of the Strategic Plan is to *proactively measure and evaluate the impact of DHCD/F funded programs and services on the health of the community residents.*
- Strategy 4.1 (HIGH Priority) – Adopt Clear Impact performance management and RBA (Results Based Accountability) platforms to track and report impact.
- The RBA approach is used as a means to demonstrate program success, improve programs that the DHCD/F administers and funds, and showcase these results in a meaningful, easy to understand way.
- As DHCD/F prepares to embrace RBA and implement the Clear Impact Scorecard, it is necessary to contract with a trained RBA/Clear Impact consultant to build the capacity of staff, the Board of Directors, and our community partners.
- At the May 24, 2022, Board of Directors meeting, the Board approved a consulting services agreement to provide services to DHCD/F's CEO and staff on the training and understanding of Results Based Accountability (RBA) and Clear Impact platforms.
- Staff would like to continue working with NPO Centric on a no-cost extension.
- Staff recommends approval of Addendum #1 extending the time at no additional cost to 9/30/23.

Fiscal Impact: NTE \$48,000: covered under Education and Training line item in the annual budget.

**CONSULTING SERVICES AGREEMENT
ADDENDUM #1**

This Professional Services Agreement (“Agreement”) was entered into on May 31, 2022 by and between Desert Healthcare District(Foundation) (“District”), a public agency organized and operating pursuant to California Health and Safety Code section 32000 et seq., and NPO Centric, (“Consultant”) as follows:

R-E-C-I-T-A-L-S

1. This Addendum extends and revises the termination date in Section 3.1 from October 1, 2022 to September 30, 2023.

2. All other terms and conditions of the original service agreement remain unchanged.

“District”:

Desert Healthcare District

“Consultant”:

NPO Centric

By: _____
Conrado Barzaga, CEO

By: _____
Leticia DeLara, Director

Date:_____

Date:_____

CONSULTING SERVICES AGREEMENT

This Professional Services Agreement ("Agreement") is entered into by and between Desert Healthcare District ("District"), a public agency organized and operating pursuant to California Health and Safety Code section 32000 et seq., and NPO Centric, ("Consultant") as follows:

R-E-C-I-T-A-L-S

1. District would like to retain the professional services of Consultant to provide the training and understanding of Results Based Accountability (RBA) and Clear Impact platforms.
2. Consultant is qualified and possesses the knowledge, skill, expertise, necessary to provide the professional services ("Services") as more specifically outlined in the attached Exhibit "A" ("Consultant Proposal").

C-O-V-E-N-A-N-T-S

1. CONSULTANT'S SERVICES.

- 1.1 Services. Consultant shall provide all labor, materials, equipment, and incidentals necessary to fully and adequately provide the District with the professional services described in the Consultant Proposal. All Services shall be performed by Consultant to the reasonable satisfaction of the District.
- 1.2 Compliance with Laws. In performing the Services, Consultant shall, at all times comply with all applicable laws, rules, regulations, codes, ordinances, and orders of every kind whatsoever issued, adopted, or enacted by any federal, state, or local governmental body having jurisdiction over the Services.
- 1.3 Performance Standard. Consultant shall perform the Services with efficiency and diligence and shall execute the Services in accordance with the standards of Consultant's profession, generally described as that degree of skill and care ordinarily exercised by professionals providing similar services as Consultant practicing in California.
- 1.4 District and Foundation's Representative. For purposes of this Agreement, the District and Foundation's Representative shall be District's Chief Executive Officer Conrado Barzaga, located at 1140 North Indian Canyon Drive, Palm Springs, CA 92262. All amendments to this Agreement shall be approved by the District Board.

2. FEES AND PAYMENTS.

2.1 Compensation for Services. For the full and satisfactory performance of the Services, District shall compensate Consultant Not to Exceed \$48,000, plus reimbursement of out-of-pocket expenses.

2.2 Invoices. Consultant shall deliver monthly invoices to the District no later than the 10th day of each month for Services.

2.3 Payment. The District shall remit payment for all amounts due to Consultant within thirty (30) days after receipt of invoices; provided, however, in the event District disputes any portion of Consultant's invoice, it shall timely pay any undisputed amounts invoiced and notify Consultant within thirty (30) days of its receipt of the invoice of the specifics of any disputed amounts. The parties shall expeditiously resolve the subject of any disputed amounts by way of negotiation or, if necessary, mediation. Any such dispute shall not relieve Consultant of its obligation to continue diligently performing the Services.

3. TERM; TERMINATION.

3.1 Term. The term of this Agreement shall run from execution of the agreement through September 30, 2022, subject to Section 1.3.

3.2 Termination for Convenience. District may, at any time in the exercise of its sole discretion, terminate this Agreement in whole or in part, with or without cause, by providing notice to Consultant of its intention to terminate the Agreement for convenience. So long as Consultant is not in default under this Agreement at the time of such termination, District shall pay Consultant for all Services incurred up to and including the date of termination.

4. INDEPENDENT CONTRACTOR.

District has retained Consultant to provide, and Consultant shall perform, the Services as an independent contractor maintaining exclusive direction and control over its employees; and, no personnel utilized by Consultant to perform the Services are employees of the District.

5. OWNERSHIP OF DOCUMENTS.

All deliverables and other documents generated by Consultant in the performance of the Services, including all work papers, work-in-progress, designs, documents, data, ledgers, journals and reports prepared by Consultant as a part of Consultant's Services shall belong to and be subject to the sole ownership and use of the District. The provisions of this Paragraph 5 shall survive any termination of this Agreement.

6. INDEMNIFICATION.

Consultant agrees to indemnify and hold the District and Foundation, its governing body, officers, employees, representatives, agents, successors and assigns (collectively the District/Foundation Indemnities), harmless from and against any and all losses, liabilities, claims, causes of action or costs and expenses of whatever nature or kind, incurred or suffered by the District or the District/Foundation Indemnities including indemnity claims arising by reason of any personal injury of any person or property loss, loss of use, or damage, to the extent the same arise out of or in connection with the negligent act(s) or omission(s), recklessness, or willful misconduct of Consultant, its officers, employees, subcontractors, or representatives, relating to the performance of the services outlined in this Agreement.

7. NOTICE.

All notices to be given under this Agreement shall be in writing and shall be deemed effective upon receipt when personally served or two days after mailing by certified, return receipt requested, to the following addresses:

To: District
Desert Healthcare District
Attention: Conrado Barzaga, Chief Executive Officer
1140 N. Indian Canyon Drive
Palm Springs, California 92262

To: Consultant
NPO Centric
Stephanie Minor
41550 Eclectic Street
Palm Desert, CA 92260

8. MISCELLANEOUS PROVISIONS.

8.1 Venue. Venue shall lie only in the federal or state courts nearest to the City of Palm Springs, in the County of Riverside, State of California.

8.2 Modification. This Agreement may not be altered in whole or in part except by a modification, in writing, executed by all the parties to this Agreement.

8.3 Entire Agreement. This Agreement, together with all Schedules attached, contains all representations and the entire understanding between the parties with respect to the subject matter of this Agreement. Any prior correspondence, memoranda, or agreements, whether or not such correspondence, memoranda, or agreements are in conflict with this Agreement, are intended to be replaced in total by this Agreement and its schedules.

8.4 Assignment. Consultant shall not be entitled to assign all or any portion of its rights or obligations contained in this Agreement without obtaining the prior written consent of the District. Nothing in this Agreement shall obligate the District to give such consent. Any purported assignment without the District's consent shall be void.

8.5 Binding Effect. This Agreement shall inure to the benefit of and be binding upon the parties and their respective purchasers, successors, heirs, and assigns.

8.6 Unenforceable Provisions. The terms, conditions, and covenants of this Agreement shall be construed whenever possible as consistent with all applicable laws and regulations. To the extent that any provision of this Agreement, as so interpreted, is held to violate any applicable law or regulation, the remaining provisions shall nevertheless be carried into full force and effect and remain enforceable.

This Agreement is entered into in the County of Riverside, State of California.

"District":

Desert Healthcare District

By: 

Conrado Barzaga, CEO

Date: 6/9/22

"Consultant":

NPO Centric

By: 

Stephanie Minor, Director

Date: May 31, 2022



Project Scope of Work

Desert Healthcare District and Foundation – RBA Capacity Building, Action Planning and Implementation

Project Summary

The Desert Healthcare District is a local government agency that was formed in 1948. Its mission is to achieve optimal health at all stages of life for all District residents. The agency's vision is equitably connecting Coachella Valley residents to health and wellness services and programs through philanthropy, health facilities, information and community education, and public policy.

The District includes more than 400,000 residents and encompasses the entire Coachella Valley. The District and Desert Healthcare Foundation, together, are one of the largest funders in the valley. These funds are used to assist residents -- especially the underserved -- in accessing vitally needed resources, such as primary and behavioral healthcare, housing, food, and transportation to medical appointments.

On October 26, 2021, the Desert Healthcare District and Foundation (DHCD/F) Board unanimously voted to approve a new Strategic Plan. The Strategic Plan identifies DHCD/F's priorities, goals, and strategies for the Coachella Valley -- with consideration given to the social determinants of health prevalent in the community. It is essentially the framework to inform and support the Board's future funding, program, and policy decisions.

Goal #4 of the Strategic Plan is to proactively measure and evaluate the impact of Desert Healthcare District and Foundation-funded programs and services on the health of community residents. Toward that end, the Desert Healthcare District and Foundation Board agreed to adopt a Results Based Accountability Framework (RBA) and to utilize the RBA-associated Clear Impact performance management tool to track and report impact.

Adopting the RBA framework will identify how well-funded programs are doing in achieving a particular quality of life result and where changes may need to be made. The RBA approach is used as a means to demonstrate program success, improve programs that the DHCD/F administers and funds, and showcase these results in a meaningful, easy-to-understand way.

The Desert Healthcare District and Foundation will be building, maintaining, and using Clear Impact Scorecards to strengthen how they measure, monitor, and continuously improve their organization and funded programs with a focus on whether the children, adults, and families they work with are "better off." These scorecards will be "live" and available on the DHCD/F's website.

As DHCD/F prepares to embrace Results Based Accountability and implement the Clear Impact Scorecard, the organization is seeking a consultant to build the capacity of staff, the Board of Directors, and their community partners.

Scope of Work

Per the project objectives outlined in the summary above, NPO Centric will provide services to the DHCD/F's CEO and staff from May 2022 to September 2022. The work will encompass two strategies: work with staff, the Board of Directors, and community partners to help them better understand RBA and Clear Impact, and to create and fulfill an Action Plan to implement RBA for DHCD/F.

Cost: \$300.00 per hour.

See the chart below:

Description of Activities and Results	Timeframe	Range of Hours
Planning Phase		
NPO Consultants to complete prerequisite work, development, and design.	Early May 2022	10-12
NPO Consultants will interview DHCD/F key staff to gain insight into the agency. This will include a historical look at DHCD/F to gain an understanding of where the agency has been, where they believe they currently are, and what the priorities are going forward.	Early May 2022	2-4
NPO Consultants to compile and aggregate the information from the interview listed above and perform a deep dive into RBA implementation that has been performed by DHCD/F staff so far.	Mid-May 2022	8-10

<p>Meeting with NPO Centric consultants and key members of staff:</p> <p>Discussion of common language and constructing a meaningful glossary.</p> <p>We will work together to determine and refine: What are DHCD/F's baselines? What is the story behind the baselines? Who are the partners? What works? What doesn't work? What additional community partners do we need to reach out to?</p> <p>We will work together to create a results list.</p> <p>We will co-design the next steps and action plan.</p>	Late May 2022	10-12
Design and Development Phase		
<p>Review of DHCD/F Strategy Mapping (What is the North Star?)</p> <p>NPO Centric Consultants prep work, planning and outreach to various community partners.</p> <ul style="list-style-type: none"> • Introduction to RBA • Talk about the priorities of DHCD • Strategy designing with community partners (We need their buy in) • Compile, organize, and analyze the information gathered from this supplemental outreach <p>Clear Impact Scorecard Work—NPO Centric Consultants will work with staff to make sure the Scorecard is set up correctly with all of the Results, Indicators, Programs and Performance Measures that will measure the impact for funding and easily communicate results to stakeholders.</p>	Late May 2022	26-30

We will also work to tell the "Story Behind The Curve" by identifying key factors—positive and negative, internal and external.		
NPO Centric Consultants to give presentation for DHCD/F staff on data and information gathered from the supplemental outreach. NPO Centric consultants to hold a performance hearing and a results hearing for DHCD/F staff.	Mid-June 2022	5-7
Consultants to plan, facilitate, co-design presentation about RBA and Clear Impact to the Board of Directors at their June 2022 Board meeting.	June 2022	3-5 (Includes prep time)
Staff to present to the Board for approval of the strategy map, implementation plan, and Turn the Curve Action plan for next fiscal year. Consultants on hand to present or answer questions as determined by staff.	June 2022	3-4
Launch Phase		
Consultants to work with DHCD/F staff on clear RFPs that include Results Based Accountability language and measurements.	July 2022	10-12
NPO Centric Consultants will help to train grantees to collect client-level data, track the performance of programs over-time, and report on the progress of their missions to improve the lives of children, families, and communities.	July 2022 – December 2022	30-36
Help expand, adapt and test the Clear Impact platform	July-August 2022	14-16
Scaling phase		

Refinement and development	August-September 2022	8-12
Estimated budget (Including presentation materials)		Not to exceed 160 hours \$48,000.00

Project Team:

Stephanie Minor
 Director
 NPO Centric
 41550 Eclectic Street
 Palm Desert, CA 92260

Kristal Granados
 NPO Centric Consultant and Executive Director of the United Way of the Desert



Date: October 11, 2022
To: Finance & Administration Committee
Subject: Lease Agreement – Pathway Pharmaceuticals, Inc, 1W-101

Staff Recommendation: Consideration to approve the draft lease agreement for Pathway Pharmaceuticals, Inc., doing business as Las Palmas Pharmacy, at the Las Palmas Medical Plaza.

Background:

- Pathway Pharmaceuticals, Inc. has been a long-standing tenant of the Las Palmas Medical Plaza.
- Pathway's current lease expires December 31, 2022.
- Pathway would like to renew for a five (5) year lease at \$1.68 sq/ft.
- Annual increases for the term are the greater of 3% or CPI.
- Tenant Improvement allowance is \$10/sf - \$10,460.
- Staff recommends approval of the lease agreement.
- Draft lease agreement is attached for review.

Fiscal Impact:

Estimated Revenue from Rent and CAMs for life of the base lease - \$157,932.

Estimated Cost of Tenant Improvement Allowance (\$10/sf) – \$10,640.

Net Lease Income (base lease) - \$147,292.

OFFICE BUILDING LEASE

Between

**DESERT HEALTHCARE DISTRICT,
DOING BUSINESS AS LAS PALMAS MEDICAL PLAZA
AS LANDLORD**

And

**PATHWAY PHARMACEUTICALS, INC.
DOING BUSINESS AS LAS PALMAS PHARMACY
AS TENANT**

DATED

NOVEMBER 1, 2022

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OFFICE BUILDING LEASE

This Lease between Desert Healthcare District, doing business as Las Palmas Medical Plaza hereinafter referred to as "Landlord", and Pathway Pharmaceuticals, Inc., doing business as Las Palmas Pharmacy, hereinafter referred to as "Tenant", and is dated November 1, 2022.

I. LEASE OF PREMISES.

In consideration of the Rent (as defined at Section 5.4) and the provisions of this Lease, Landlord leases to Tenant and Tenant leases from Landlord the Premises described in Section 2L. The Premises are located within the Building and Project described in Section 2m. Tenant shall have the non-exclusive right (unless otherwise provided herein) in common with Landlord, other tenants, subtenants, and invitees, to use of the Common Areas (as defined at Section 2e).

2. DEFINITIONS.

As used in this Lease, the following terms shall have the following meanings:

a. *Base Rent (Initial)*: \$ Twenty-One Thousand, Four Hundred Fifty and 24/100 Dollars (\$21,450.24) per year.

b. *Base Year*: The calendar year of 2023.

c. *Broker(s)*:

Landlord's: N/A

Tenant's: N/A

In the event that N/A. represents both Landlord and Tenant, Landlord and Tenant hereby confirm that they were timely advised of the dual representation and that they consent to the same, and that they do not expect said broker to disclose to either of them the confidential information of the other party.

d. *Commencement Date*: January 1, 2023.

e. *Common Areas*: The building lobbies, common corridors and hallways, restrooms, parking areas, stairways, elevators and other generally understood public or common areas. Landlord shall have the right to regulate or restrict the use of the Common Areas.

f. *Expiration Date*: December 31, 2027, unless otherwise sooner terminated in accordance with the provisions of this Lease.

g. *Landlord's Mailing Address*: 1140 N. Indian Canyon Dr., Palm Springs, CA 92262.

Tenant's Mailing Address: 555 E. Tachevah Dr. 1W-101, Palm Springs, CA 92262.

h. *Monthly Installments of Base Rent (initial)*: \$ One Thousand, Seven Hundred Eighty-Seven and 52/100 (\$1,787.52) per month.

i. *Project Operating Costs (CAMS)*: Currently Sixty-Nine Cents (\$0.69) per square foot per month.

j. *Tenant Improvement Allowance (TI)*: \$10.00 per sq/ft or Ten Thousand, Six Hundred Forty and 00/100 Dollars (\$10,640.00).

k. *Parking*: Tenant shall be permitted, to park 5 cars on a non-exclusive basis in the area(s) designated by Landlord for parking (for Staff - generally in the back of the parking area, perimeter streets, and Wellness Park parking lot). Tenant shall abide by any and all parking regulations and rules established from time to time by Landlord or Landlord's parking operator.

l. *Premises*: That portion of the Building containing approximately 1,064 square feet of Rentable Area, located in Building 1W and known as Suite 101.

m. *Project*: The building of which the Premises are a part (the "Building") and any other buildings or improvements on the real property (the "Property") located at 555 E. Tachevah Drive, Palm Springs, California 92262. The Project is known as The Las Palmas Medical Plaza.

n. *Rentable Area*: As to both the Premises and the Project, the respective measurements of floor area as may from time to time be subject to lease by Tenant and all tenants of the Project, respectively, as determined by Landlord and applied on a consistent basis throughout the Project.

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- o. *Security Deposit (Section 7):* \$ Tenant will carry over from previous lease in the amount of One Thousand, Six Hundred and Seventeen Dollars and 28/100 (\$1,617.28).
- p. *State:* the State of California.
- q. *Tenant's First Adjustment Date (Section 5):* The first day of the calendar month following the Commencement Date plus 12 months.
- r. *Tenant's Proportionate Share:* 2.16%. Such share is a fraction, the numerator of which is the Rentable Area of the Premises and the denominator of which is the Rentable Area of the Project, as determined by Landlord from time to time. The Project consists of six building(s) containing a total Rentable Area of 49,356 square feet.
- s. *Tenant's Use Clause (Article 8):* Medically related office use consistent with and use the City may allow under the City of Palm Springs zoning, subject to Landlord's reasonable approval.
- t. *Term:* The period commencing on the Commencement Date and expiring at midnight on the Expiration Date.

3. EXHIBITS AND ADDENDA.

The exhibits and addenda listed below (unless lined out) are incorporated by reference in this Lease:

- a. Exhibit "A" Rules and Regulations.
- b. Addenda*

*See Addendum attached hereto and by this reference made a part hereof.

4. DELIVERY OF POSSESSION.

If for any reason Landlord does not deliver possession of the Premises to Tenant on the Commencement Date, Landlord shall not be subject to any liability for such failure, the Expiration Date shall not change and the validity of this Lease shall not be impaired, but Rent shall be abated until delivery of possession, "Delivery of possession" shall be deemed to occur on the date Landlord completes Landlord's Work as defined in Addendum. If Landlord permits Tenant to enter into possession of the Premises before the Commencement Date, such possession shall be subject to the provisions of this Lease, including, without limitation, the payment of Rent.

5. RENT.

5.1 *Payment of Base Rent:* Tenant agrees to pay the base rent for the premises. Monthly installments of Base Rent shall be payable in advance on the first day of each calendar month of the term. If the term begins (or ends) on other than the first (or last) day of a calendar month, the Base Rent for the partial month shall be prorated on a per diem basis. Tenant shall pay Landlord the first Monthly Installment of Base Rent when Tenant executes the Lease.

5.2 *Adjusted Base Rent:*

- a. The Base Rent (and the corresponding monthly installments of Base Rent) set forth at Section 2a shall be adjusted annually (the "Adjustment Date"), commencing on Tenant's First Adjustment Date.
- b. Such adjustment shall be the greater of 3% over the preceding year or Consumer Price Index.
- c.

5.3 *Project Operating Costs (CAMs):*

- a. In order that the Rent payable during the Term reflect Project Operating Costs, Tenant agrees to pay to Landlord as Rent, Tenant's Proportionate Share of all costs, expenses and obligations attributable to the Project and its operation as set forth in 2i, all as provided below.
- b. If, during any calendar year during the Term, Project Operating Costs exceed the Project Operating Costs for the Base Year, Tenant shall pay to Landlord, in addition to the Base Rent and all other payments due under this lease, an amount equal to Tenant's Proportionate Share of such excess Project Operating Costs in accordance with the provisions of this Section 5.3b.

(1.) The term "Project Operating Costs" shall include all those items described in the following subparagraphs (a) and (b).

- (a.) All taxes, assessments, water and sewer charges and other similar governmental charges levied on or attributable to the Building or Project or their operation, including without limitation, (i) real property taxes or assessments levied or assessed against the Building or Project, (ii) assessments or charges levied or assessed against the Building or Project by any redevelopment agency, (iii) any tax measured by gross rentals received from the leasing of the Premises, Building or Project, excluding any net income, franchise, capital stock, estate or inheritance taxes imposed by the State or federal government or their agencies, branches or departments; provided that if at any time during the Term any governmental entity levies, assesses or imposes on Landlord any (1) general or special, ad valorem or specific, excise, capital levy or other tax, assessment, levy or charge directly on the Rent received under this lease or on the rent received under any other leases of space in the Building or Project, or (2) and license fee, excise or franchise tax,

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assessment, levy or charge measured by or based, in whole or in part, upon such rent, or (3) any transfer, transactions, or similar tax, assessment, levy or charge based directly or indirectly upon the transaction represented by this Lease or such other leases, or (4) any occupancy, use, per capita or other tax, assessment, levy or charge based directly or indirectly upon the use or occupancy of the Premises or other premises within the Building or Project, then any such taxes, assessments, levies and charges shall be deemed to be included in the term Project Operating Costs. If at any time during the Term the assessed valuation of, or taxes on, the Project are not based on a completed Project having at least eighty-five percent (85%) of the Rentable Area occupied, then the "taxes" component of Project Operating Costs shall be adjusted by Landlord to reasonably Approximate the taxes, which would have been payable if the Project were completed and at least eighty-five percent (85%) occupied.

(b.) Operating costs incurred by Landlord in maintaining and operating the Building and Project, including without limitation the following: costs of (1) utilities; (2) supplies; (3) insurance (including public liability, property damage, earthquake, and fire and extended coverage insurance for the full replacement cost of the Building and Project as required by Landlord or its lenders for the Project; (4) services of independent contractors; (5) compensation (including employment taxes and fringe benefits) of all persons who perform duties connected with the operation, maintenance, repair or overhaul of the Building or Project, and equipment, improvements and facilities located within the Project, including without limitation engineers, janitors, painters, floor waxers, window washers, security and parking personnel and gardeners (but excluding persons performing services not uniformly available to or performed for substantially all Building or Project tenant); (6) operation and maintenance of a room for delivery and distribution of mail to tenants of the Building or Project as required by the U.S. Postal Service (including, without limitation, an amount equal to the fair market rental value of the mail room premises); (7) management of the Building or Project, whether managed by Landlord or an independent contractor (including, without limitation, an amount equal to the fair market value of any on-site manager's office); (8) rental expenses for (or a reasonable depreciation allowance on) personal property used in the maintenance, operation or repair of the Building or Project; (9) costs, expenditures or charges (whether capitalized or not) required by any governmental or quasi-governmental authority; (10) amortization of capital expenses (including financing costs) (i) required by a governmental entity for energy conservation or life safety purposes, or (ii) made by landlord to reduce Project Operating Costs; and (11) any other costs or expenses incurred by Landlord under this Lease and not otherwise reimbursed by tenants of the Project. If at any time during the Term, less than eighty-five percent (85%) of the Rentable Area of the Project is occupied, the "operating costs" component of Project Operating Costs shall be adjusted by Landlord to reasonably approximate the operating costs which would have been incurred if the Project had been at least eighty-five percent (85%) occupied.

(2.) Tenant's Proportionate Share of Project Operating Costs shall be payable by Tenant to Landlord as follows:

(a.) Beginning with the calendar year following the Base Year and for each calendar year thereafter ("comparison Year"), Tenant shall pay Landlord an amount equal to Tenant's Proportionate Share of the Project Operating Costs incurred by Landlord in the Comparison Year which exceeds the total amount of Project Operating Costs payable by Landlord for the Base Year. This excess is referred to as the "Excess Expenses."

(b.) To provide for current payments of Excess Expenses, Tenant shall, at Landlord's request, pay as additional rent during each Comparison Year, an amount equal to Tenant's Proportionate Share of the Excess Expenses payable during such Comparison Year, as estimated by Landlord from time to time. Such payments shall be made in monthly installments, commencing on the first day of the month following the month in which Landlord notifies Tenant of the amount it is to pay hereunder and continuing until the first day of the month following the month in which Landlord gives Tenant a new notice of estimated Excess Expenses. It is the intention hereunder to estimate from time to time the amount of the Excess Expense for each Comparison Year and Tenant's Proportionate Share thereof, and then to make an adjustment in the following year based on the actual Excess Expenses incurred for that Comparison Year.

(c.) On or before April 1 of each Comparison Year after the first Comparison Year (or as soon thereafter as is practical), Landlord shall deliver to Tenant a statement setting forth Tenant's Proportionate Share of the Excess Expenses for the preceding Comparison Year. If Tenant's Proportionate Share of the actual Excess Expenses for the previous Comparison Year exceeds the total of the estimated monthly payments made by Tenant for such year, Tenant shall pay Landlord the amount of the deficiency within ten (10) days of the receipt of the statement. If such total exceeds Tenant's Proportionate Share of the actual Excess Expenses for such Comparison Year, then Landlord shall credit against Tenant's next ensuing monthly installment(s) of additional rent an amount equal to the difference until the credit is exhausted. If the credit is due from Landlord on the Expiration Date, Landlord shall pay Tenant the amount of the credit. The obligations of Tenant and Landlord to make payments required under this Section 5.3 shall survive the Expiration Date.

(d.) Tenant's Proportionate Share of Excess Expenses in any Comparison Year having less than 365 days shall be appropriately prorated.

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- (e.) If any dispute arises as to the amount of any additional rent due hereunder, Tenant shall have the right after reasonable notice and at reasonable times to inspect Landlord's accounting records at Landlord's accounting office and, if after such inspection Tenant still disputes the amount of additional rent owed, a certification as to the proper amount shall be made by Landlord's certified public accountant, which certification shall be final and conclusive. Tenant agrees to pay the cost of such certification unless it is determined that Landlord's original statement overstated Project Operating Costs by more than five percent (5%).
- (f.) If this Lease sets forth an Expense Stop at Section 2f, then during the Term, Tenant shall be liable for Tenant's Proportionate Share of any actual Project Operating Costs which exceed the amount of the Expense Stop. Tenant shall make current payments of such excess costs during the Term in the same manner as is provided for payment of Excess Expenses under the applicable provisions of Section 5.3(2)(b) and (c) above.

5.4 Definition of Rent: The Rent shall be paid to the Building manager (or other person) and at such place, as Landlord may from time to time designate in writing, without any prior demand therefore and without deduction or offset, in lawful money of the United States of America.

5.5 Rent Control: If the amount of Rent or any other payment due under this Lease violates the terms of any governmental restrictions on such Rent or payment, then the Rent or payment due during the period of such restrictions shall be the maximum amount allowable under those restrictions. Upon termination of the restrictions, Landlord shall, to the extent it is legally permitted, recover from Tenant the difference between the amounts received during the period of the restrictions and the amounts Landlord would have received had there been no restrictions.

5.6 Taxes Payable by Tenant: In addition to the Rent and any other charges to be paid by Tenant hereunder, Tenant shall reimburse Landlord upon demand for any and all taxes payable by Landlord (other than net income taxes) which are not otherwise reimbursable under this Lease, whether or not now customary or within the contemplation of the parties, where such taxes are upon, measured by or reasonably attributable to (a) the cost or value of Tenant's equipment, furniture, fixtures and other personal property located in the Premises, or the cost or value of any leasehold improvements made in or to the Premises by or for Tenant, other than Building Standard Work made by Landlord, regardless of whether title to such improvements is held by Tenant or Landlord; (b) the gross or net Rent payable under this Lease, including, without limitation, any rental or gross receipts tax levied by any taxing authority with respect to the receipt of the Rent hereunder; (c) the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof; or (d) this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises. If it becomes unlawful for Tenant to reimburse Landlord for any costs as required under this Lease, the Base Rent shall be revised to net Landlord the same net Rent after imposition of any tax or other charge upon Landlord as would have been payable to Landlord but for the reimbursement being unlawful.

5.7 Tenant Improvement Allowance: In recognition for Tenant completing all improvements to the premises as mutually agreed by Landlord and Tenant, Landlord shall provide Tenant with a total Tenant improvement allowance not to exceed that set forth in Section 2j upon completion of agreed Tenant improvements. This allowance will be reimbursed to tenant upon satisfactory receipt of paid invoices and inspection by Property Management that work has been satisfactorily completed. Any additional tenant improvements will be at the sole expense of the Tenant. Improvements shall conform to a high quality of design approved by Landlord prior to commencement of work and shall be performed by a licensed General Contractor approved by Landlord in advance. Tenant shall submit plans and specifications for any and all improvements to Landlord, and where necessary, the City of Palm Springs and other applicable government agencies for their required approval (if any) prior to commencement of work. Tenant and the General Contractor shall indemnify and hold Landlord and its officers, agents and employees harmless from any liability resulting from the tenant improvement work and shall be named as an additional insured on the insurance policy of both the Tenant and the General Contractor. All costs shall be subject to prevailing wages and if construction costs exceed \$25,000, then the tenant improvements shall also be subject to California competitive bid statutes.

6. INTEREST AND LATE CHARGES.

If Tenant fails to pay when due any Rent or other amounts or charges which Tenant is obligated to pay under the terms of this Lease, the unpaid amounts shall bear interest at the maximum rate then allowed by law. Tenant acknowledges that the late payment of any Monthly Installment of Base Rent will cause Landlord to lose the use of that money and incur costs and expenses not contemplated under this Lease, including without limitation, administrative and collection costs and processing and accounting expenses, the exact amount of which is extremely difficult to ascertain. Therefore, in addition to interest, if any such installment is not received by Landlord within five (5) days from the date it is due, Tenant shall pay Landlord a late charge equal to ten percent (10%) of such installment. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for the loss suffered from such nonpayment by Tenant. Acceptance of any interest or late charge shall not constitute a waiver of Tenant's default with respect to such nonpayment by Tenant nor prevent Landlord from exercising any other rights or remedies available to Landlord under this Lease.

7. SECURITY DEPOSIT.

Tenant agrees to deposit with Landlord the Security Deposit set forth at Section 2.0 upon execution of this Lease, as security for Tenant's faithful performance of its obligations under this Lease. Landlord and Tenant agree that the Security Deposit may be commingled with funds of Landlord and Landlord shall have no obligation or liability for payment of interest on such deposit. Tenant shall not mortgage, assign, transfer, or encumber the Security Deposit without the prior written consent of Landlord and any attempt by Tenant to do so shall be void, without force or effect and shall not be binding upon Landlord.

If Tenant fails to pay Rent or other amount when due and payable under this Lease, or fails to perform any of the terms hereof, Landlord may appropriate and apply or use all or any portion of the Security Deposit for Rent payments or any other amount then due and unpaid, for payment of any amount for which Landlord has become obligated as a result of Tenant's default or breach, and for any loss or damage sustained by Landlord as a result of Tenant's default or breach, and Landlord may so apply or use this deposit without prejudice to any other remedy Landlord may have by reason of Tenant's default or breach. If Landlord so uses any of the Security Deposit, Tenant shall, within ten (10) days after written demand, therefore, restore the Security Deposit to the full amount originally deposited; Tenant's failure to do so shall constitute an act of default hereunder and Landlord shall have the right to exercise any remedy provided for at Article 27 hereof. Within fifteen (15) days after the Term (or any extension thereof) has expired or Tenant has vacated the Premises, whichever shall last occur, and provided Tenant is not then in default on any of its obligations hereunder, Landlord shall return the Security Deposit to Tenant, or, if Tenant has assigned its interest under this Lease, to the last assignee of Tenant. If Landlord sells its interest in the Premises, Landlord may deliver this deposit to the purchaser of Landlord's interest and thereupon be relieved of any further liability or obligation with respect to the Security Deposit.

8. TENANT'S USE OF THE PREMISES

Tenant shall use the Premises solely for the purposes set forth in Tenant's Use Clause. Tenant shall not use or occupy the Premises in violation of law or any covenant, condition or restriction affecting the Building or Project, or the certificate of occupancy issued for the Building or Project, and shall, upon notice from Landlord, immediately discontinue any use of the Premises which is declared by any governmental authority having jurisdiction to be a violation of law or the certificate of occupancy. Tenant, at Tenant's own cost and expense, shall comply with all laws, ordinances, regulations, rules and/or any directions of any governmental agencies or authorities having jurisdiction which shall, by reason of the nature of Tenant's use or occupancy of the Premises, impose any duty upon Tenant or Landlord with respect to the Premises or its use or occupation. A judgment of any court of competent jurisdiction or the admission by Tenant in any action or proceeding against Tenant that Tenant has violated any such laws, ordinances, regulations, rules and/or directions in the use of the Premises shall be deemed to be a conclusive determination of that fact as between Landlord and Tenant. Tenant shall not do or permit to be done anything, which will invalidate or increase the cost of any fire, extended coverage or other insurance policy covering the Building or Project and/or property located therein, and shall comply with all rules, orders, regulations, requirements and recommendations of the Insurance Services Office or any other organization performing a similar function. Tenant shall promptly upon demand reimburse Landlord for any additional premium charged for such policy by reason of Tenant's failure to comply with the provisions of this Article. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or Project, or injure or annoy them, or use or allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall not commit or suffer to be committed any waste in or upon the Premises.

9. SERVICES AND UTILITIES.

Provided that Tenant is not in default hereunder, Landlord agrees to furnish to the Premises during generally recognized business days, and during hours determined by Landlord in its sole discretion, and subject to the Rules and Regulations of the Building or Project, electricity for normal desk top office equipment and normal copying equipment, and heating, ventilation and air conditioning ("HVAC") as required in Landlord's judgment for the comfortable use and occupancy of the Premises. If Tenant desires HVAC at any other time, Landlord shall use reasonable efforts to furnish such service upon reasonable notice from Tenant and Tenant shall pay Landlord's charges therefore on demand. Landlord shall also maintain and keep lighted the common stairs, common entries and restrooms in the Building. Landlord shall not be in default hereunder or be liable for any damages directly or indirectly resulting from, nor shall the Rent be abated by reason of (I) the installation, use or interruption of use of any equipment in connection with the furnishing of any of the foregoing services, (ii) failure to furnish or delay in furnishing any such services where such failure or delay is caused by accident or any condition or event beyond the reasonable control of Landlord, or by the making of necessary repairs or improvements to the Premises, Building or Project, or (iii) the limitation, curtailment or rationing of, or restrictions on, use of water, electricity, gas or any other form of energy serving the Premises, Building or Project. Landlord shall not be liable under any circumstances for a loss of or injury to property or business, however occurring, through or in connection with or incidental to failure to furnish any such services. If Tenant uses heat generating machines or equipment in the Premises which affect the temperature otherwise maintained by the HVAC system, Landlord reserves the right to install supplementary air conditioning units in the Premises and the cost thereof, including the cost of installation, operation and maintenance thereof, shall be paid by Tenant to Landlord upon demand by Landlord.

Tenant shall not, without the written consent of Landlord, use any apparatus or devise in the Premises, including without limitation, electronic data processing machines, punch card machines or machines using in excess of 120 volts, which consumes more electricity than is usually furnished or supplied for the use of premises as general office space, as

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determined by Landlord. Tenant shall not connect any apparatus with electric current except through existing electrical outlets in the Premises. Tenant shall not consume water or electric current in excess of that usually furnished or supplied for the use of premises as general office space (as determined by Landlord), without first procuring the written consent of Landlord, which Landlord may refuse, and in the event of consent, Landlord may have installed a water meter or electrical current meter in the Premises to measure the amount of water or electric current consumed. The cost of any such meter and of its installation, maintenance and repair shall be paid for by the Tenant and Tenant agrees to pay to Landlord Promptly upon demand for all such water and electric current consumed as shown by said meters, at the rates charged for such services by the local public utility plus any additional expense incurred in keeping account of the water and electric current so consumed. If a separate meter is not installed, the excess cost for such water and electric current shall be established by an estimate made by a utility company or electrical engineer hired by Landlord at Tenant's expense.

Nothing contained in this Article shall restrict Landlord's right to require at any time separate metering of utilities furnished to the Premises. In the event utilities are separately metered, Tenant shall pay promptly upon demand for all utilities consumed at utility rates charged by the local public utility plus any additional expense incurred by Landlord in keeping account of the utilities so consumed. Tenant shall be responsible for the maintenance and repair of any such meters at its sole cost.

Landlord shall furnish elevator service, lighting replacement for building standard lights, restroom supplies, window washing and janitor services of common area in a manner that such services are customarily furnished to comparable office buildings in the area.

10. CONDITION OF THE PREMISES.

Tenant's taking possession of the Premises shall be deemed conclusive evidence that as of the date of taking possession of the Premises are in good order and satisfactory condition, except for such matters as to which Tenant gave Landlord notice on or before the Commencement Date. No promise of Landlord to alter, remodel, repair or improve the Premises, the Building or the Project and no representation, express or implied, respecting any matter or thing relating to the Premises, Building, Project or this Lease (including, without limitation, the condition of the Premises, the Building or the Project) have been made to Tenant by Landlord or its Broker or Sales Agent, other than as may be contained herein or in a separate exhibit or addendum signed by Landlord and Tenant.

11. CONSTRUCTION, REPAIRS AND MAINTENANCE.

- a. *Landlord's Obligations:* Landlord shall maintain in good order, condition and repair the Building and all other portions of the Premises not the obligation of Tenant or of any other tenant in the Building.
- b. *Tenant's Obligations:*
 - (1.) Tenant shall perform Tenant's Work to the Premises as described in an exhibit specific to Tenant Improvements, if applicable."
 - (2.) Tenant at Tenant's sole expense shall, except for services furnished by Landlord pursuant to Article 9 hereof, maintain the Premises in good order, condition and repair, including the interior surfaces of the ceilings, walls and floors, all doors, all interior windows, all plumbing, pipes and fixtures, electrical wiring, switches and fixtures, Building Standard furnishings and special items and equipment installed by or at the expense of Tenant.
 - (3.) Tenant shall be responsible for all repairs and alterations in and to the Premises, Building and Project and the facilities and systems thereof, the need for which arises out of (i) Tenant's use or occupancy of the Premises, (ii) the installation, removal, use or operation of Tenant's Property (as defined in Article 13) in the Premises, (iii) the moving of Tenant's Property into or out of the Building, or (iv) the act, omission, misuse or negligence of Tenant, its agents, contractors, employees or invitees.
 - (4.) If Tenant fails to maintain the Premises in good order, condition and repair, Landlord shall give Tenant notice to do such acts as are reasonably required to so maintain the Premises. If Tenant fails to promptly commence such work and diligently prosecute it to completion, then Landlord shall have the right to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expended by Landlord shall be paid by Tenant promptly after demand with interest at the prime commercial rate then being charged by Bank of America NT & SA plus two percent (2%) per annum, from the date of such work, but not to exceed the maximum rate then allowed by law. Landlord shall have no liability to Tenant for any damage, inconvenience, or interference with the use of the Premises by Tenant as a result of performing any such work.
- c. *Compliance with Law:* Landlord and Tenant shall each do all acts required to comply with all applicable laws, ordinances, and rules of any public authority relating to their respective maintenance obligations as set forth herein.
- d. *Waiver by Tenant:* Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford the Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

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- e. *Load and Equipment Limits:* Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry, as determined by Landlord or Landlord's structural engineer. The cost of any such determination made by Landlord's structural engineer shall be paid for by Tenant upon demand. Tenant shall not install business machines or mechanical equipment which cause noise or vibration to such a degree as to be objectionable to Landlord or other Building tenants.
- f. Except as otherwise expressly provided in this Lease, Landlord shall have no liability to Tenant nor shall Tenant's obligations under this Lease be reduced or abated in any manner whatsoever by reason of any inconvenience, annoyance, interruption or injury to business arising from Landlord's making any repairs or changes which Landlord is required or permitted by this Lease or by any other tenant's lease or required by law to make in or to any portion of the Project, Building or the Premises. Landlord shall nevertheless use reasonable efforts to minimize any interference with Tenant's business in the Premises.
- g. Tenant shall give Landlord prompt notice of any damage to or defective condition in any part or appurtenance of the Building's mechanical, electrical, plumbing, HVAC or other systems serving, located in, or passing through the Premises.
- h. Upon the expiration or earlier termination of this Lease, Tenant shall return the Premises to Landlord clean and in the same condition as on the date Tenant took possession, except for normal wear and tear. Any damage to the Premises, including any structural damage, resulting from Tenant's use or from the removal of Tenant's fixtures, furnishings and equipment pursuant to Section 13b shall be repaired by Tenant at Tenant's expense.

12. ALTERATIONS AND ADDITIONS.

- a. Tenant shall not make any additions, alterations or improvements to the Premises without obtaining the prior written consent of Landlord. Landlord's consent may be conditioned on Tenant's removing any such additions, alterations or improvements upon the expiration of the term and restoring the Premises to the same condition as on the date Tenant took possession. All work with respect to any addition, alteration or improvement shall be done in a good and workmanlike manner by properly qualified and licensed personnel approved by Landlord, and such work shall be diligently prosecuted to completion. Landlord may, at Landlord's option, require that any such work be performed by Landlord's contractor in which case the cost of such work shall be paid for before commencement of the work. Tenant shall pay to Landlord upon completion of any such work by Landlord's contractor, an administrative fee of fifteen percent (15%) of the cost of the work.
- b. Tenant shall pay the costs of any work done on the Premises pursuant to Section 12a, and shall keep the Premises, Building and Project free and clear of liens of any kind. Tenant shall indemnify, defend against and keep Landlord free and harmless from all liability, loss, damage, costs, attorneys' fees and any other expense incurred on account of claims by any person performing work or furnishing materials or supplies for Tenant or any person claiming under Tenant.

Tenant shall keep Tenant's leasehold interest, and any additions or improvements which are or become the property of Landlord under this Lease, free and clear of all attachment or judgment liens. Before the actual commencement of any work for which a claim or lien may be filed, Tenant shall give Landlord notice of the intended commencement date a sufficient time before that date to enable Landlord to post notices of non-responsibility or any other notices which Landlord deems necessary for the proper protection of Landlord's interest in the Premises, Building or the Project, and Landlord shall have the right to enter the Premises and post such notice at any reasonable time.

- c. Landlord may require, at Landlord's sole option, that Tenant provide to Landlord, at Tenant's expense, a lien and completion bond in an amount equal to at least one and one-half (1.5) times the total estimated cost of any additions, alterations or improvements to be made in or to the Premises, to protect Landlord against any liability for mechanic's and material men's liens and to insure timely completion of the work. Nothing contained in this Section 12c shall relieve Tenant of its obligations under Section 12b to keep the Premises, Building and Project free of all liens.
- d. Unless their removal is required by Landlord as provided in Section 12a, all additions, alterations and improvements made to the Premises shall become the property of Landlord and be surrendered with the Premises upon the expiration of the Term; provided, however, Tenant's equipment, machinery and trade fixtures which can be removed without damage to the Premises shall remain the property of Tenant and may be removed, subject to the provisions of Section 13b.

13. LEASEHOLD IMPROVEMENTS; TENANT'S PROPERTY.

- a. All fixtures, equipment, improvements and appurtenances attached to or built into the Premises at the commencement of or during the Term, whether or not by or at the expense of Tenant ("Leasehold Improvements"), shall be and remain a part of the Premises, shall be the property of Landlord and shall not be removed by Tenant, except as expressly provided in Section 13b.
- b. All movable partitions, business and trade fixtures, machinery and equipment, communications equipment and office equipment located in the Premises and acquired by or for the account of Tenant, without expense to

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Landlord, which can be removed without structural damage to the Building, and all furniture, furnishings and other articles of movable personal property owned by Tenant and located in the Premises (collectively "Tenant's Property") shall be and shall remain the property of Tenant and may be removed by Tenant at any time during the Term; provided that if any of Tenant's Property is removed, Tenant shall promptly repair any damage to the Premises or to the Building resulting from such removal.

14. RULES AND REGULATIONS.

Tenant agrees to comply with (and cause its agents, contractors, employees and invitees to comply with) the rules and regulations attached hereto as Exhibit "D" and with such reasonable modifications thereof and additions thereto as Landlord may from time to time make. Landlord shall not be responsible for any violation of said rules and regulations by other tenants or occupants of the Building of Project.

15. CERTAIN RIGHTS RESERVED BY LANDLORD.

Landlord reserves the following rights, exercisable without liability to Tenant for (a) damage or injury to property, person or business, (b) causing an actual or constructive eviction from the Premises, or (c) disturbing Tenant's use or possession of the Premises:

- a. To name the Building and Project and to change the name or street address of the Building or Project;
- b. To install and maintain all signs on the exterior and interior of the Building and Project;
- c. To have pass keys to the Premises and all doors within the Premises, eluding Tenant's vaults and safes;
- d. At any time during the Term, and on reasonable prior notice to Tenant, to inspect the Premises, and to show the Premises to any prospective purchaser or mortgagee of the Project, or to any assignee of any mortgage on the Project, or to others having an interest in the Project or Landlord, and during the last six months of the Term, to show the Premises to prospective tenants thereof; and
- e. To enter the Premises for the purpose of making inspections, repairs, alterations, additions or improvements to the Premises or the Building (including, without limitation, checking, calibrating, adjusting or balancing controls and other parts of the HVAC system), and to take all steps as may be necessary or desirable for the safety, protection, maintenance or preservation of the Premises or the Building or Landlord's interest therein, or as may be necessary or desirable for the operation or improvement of the Building or in order to comply with laws, orders or requirements of governmental or other authority. Landlord agrees to use its best efforts (except in an emergency) to minimize interference with Tenant's business in the Premises in the course of any such entry.

16. ASSIGNMENT AND SUBLETTING.

No assignment of this Lease or sublease of all or any part of the Premises shall be permitted, except as provided in this Article 16.

- a. Tenant shall not, without the prior written consent of Landlord, assign or hypothecate this Lease or any interest herein or sublet the Premises or any part thereof, or permit the use of the Premises by any party other than Tenant. Any of the foregoing acts without such consent shall be void and shall, at the option of Landlord, terminate this Lease. This Lease shall not, nor shall any interest of Tenant herein, be assignable by operation of law without the written consent of Landlord.
- b. If at any time or from time to time during the Term Tenant desires to assign this Lease or sublet all or any part of the Premises, Tenant shall give notice to Landlord setting forth the terms and provisions of the proposed assignment or sublease, and the identity of the proposed assignee or subtenant. Tenant shall promptly supply Landlord with such information concerning the business background and financial condition of such proposed assignee or subtenant as Landlord may reasonably request. Landlord shall have the option, exercisable by notice given to Tenant within twenty (20) days after Tenant's notice is given, either to sublet such space from Tenant at the rental and on the other terms set forth in this Lease for the term set forth in Tenant's notice, or, in the case of an assignment, to terminate this Lease. If Landlord does not exercise such option, Tenant may assign the Lease or sublet such space to such proposed assignee or subtenant on the following further conditions:
 - (1.) Landlord shall have the right to approve such proposed assignee or subtenant, which approval shall not be unreasonably withheld;
 - (2.) The assignment or sublease shall be on the same terms set forth in the notice given to Landlord;
 - (3.) No assignment or sublease shall be valid and no assignee or sub lessee shall take possession of the Premises until an executed counterpart of such assignment or sublease has been delivered to Landlord;
 - (4.) No assignee or sub lessee shall have a further right to assign or sublet except on the terms herein contained; and

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(5.) Any sums or other economic consideration received by Tenant as a result of such assignment or subletting, however denominated under the assignment or sublease, which exceed, in the aggregate, (i) the total sums which Tenant is obligated to pay Landlord under this Lease (prorated to reflect obligations allocable to any portion of the Premises subleased), plus (ii) any real estate brokerage commissions or fees payable in connection with such assignment or subletting, shall be paid to Landlord as additional rent under this Lease without affecting or reducing any other obligations of Tenant hereunder.

- c. Notwithstanding the provisions of paragraphs a and b above, Tenant may assign this Lease or sublet the Premises or any portion thereof, without Landlord's consent and without extending any recapture or termination option to Landlord, to any corporation which controls, is controlled by or is under common control with Tenant, or to any corporation resulting from a merger or consolidation with Tenant, or to any person or entity which acquires all the assets of Tenant's business as a going concern, provided that (i) the assignee or sub lessee assumes, in full, the obligations of Tenant under this Lease, (ii) Tenant remains fully liable under this Lease, and (iii) the use of the Premises under Article 8 remains unchanged.
- d. No subletting or assignment shall release Tenant of Tenant's obligations under this Lease or alter the primary liability of Tenant to pay the Rent and to perform all other obligations to be performed by Tenant hereunder. The acceptance of Rent by landlord from any other person shall not be deemed to be a waiver by Landlord of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of default by an assignee or subtenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such assignee, subtenant or successor. Landlord may consent to subsequent assignments of the Lease or sub lettings or amendments or modifications to the Lease with assignees of tenant, without notifying Tenant, or any successor of Tenant, and without obtaining its or their consent thereof and any such actions shall not relieve Tenant of liability under this Lease.
- e. If Tenant assigns the Lease or sublets the Premises or requests the consent of Landlord to any assignment or subletting or if Tenant requests the consent of Landlord for any act that Tenant proposes to do, then Tenant shall, upon demand, pay Landlord an administrative fee of One Hundred Fifty and No/100 Dollars (\$150.00) plus any attorney's fees reasonably incurred by Landlord in connection with such act or request.

17. HOLDING OVER.

If after expiration of the Term, Tenant remains in possession of the Premises with Landlord's permission (express or implied), Tenant shall become a tenant from month to month only, upon all the provisions of this Lease (except as to term and Base Rent), but the "Monthly Installments of Base Rent" payable by Tenant shall be increased to one hundred fifty percent (150%) of the Monthly Installments of Base Rent payable by Tenant at the expiration of the Term. Such monthly rent shall be payable in advance on or before the first day of each month. If either party desires to terminate such month-to-month tenancy, it shall give the other party not less than thirty (30) days advance written notice of the date of termination.

18. SURRENDER OF PREMISES.

- a. Tenant shall peaceably surrender the Premises to Landlord on the Expiration Date, in broom-clean condition and in as good condition as when Tenant took possession, except for (i) reasonable wear and tear, (ii) loss by fire or other casualty, and (iii) loss by condemnation. Tenant shall, on Landlord's request, remove Tenant's Property on or before the Expiration Date and promptly repair all damage to the Premises or Building caused by such removal.
- b. If Tenant abandons or surrenders the Premises, or is dispossessed by process of law or otherwise, any of Tenant's Property left on the Premises shall be deemed to be abandoned, and, at Landlord's option, title shall pass to Landlord under this Lease as by a bill of sale. If Landlord elects to remove all or any part of such Tenant's Property, the cost of removal, including repairing any damage to the Premises or Building caused by such removal, shall be paid by Tenant. On the Expiration Date Tenant shall surrender all keys to the Premises.

19. DESTRUCTION OR DAMAGE.

- a. If the Premises or the portion of the Building necessary for Tenant's occupancy is damaged by fire, earthquake, act of God, the elements, or other casualty, Landlord shall, subject to the provisions of this Article, promptly repair the damage, if such repairs can, in Landlord's opinion, be completed within ninety (90) days. If Landlord determines that repairs can be completed within ninety (90) days, this Lease shall remain in full force and effect, except that if such damage is not the result of the negligence or willful misconduct of Tenant or Tenant's agents, employees, contractors, licensees, or invitees, the Base Rent shall be abated to the extent Tenant's use of the Premises is impaired, commencing with the date of damage and continuing until completion of the repairs required of Landlord under Section 19d.
- b. If in Landlord's opinion, such repairs to the Premises or portion of the Building necessary for Tenant's occupancy cannot be completed within ninety (90) days, Landlord may elect, upon notice to Tenant given within thirty (30) days after the date of such fire or other casualty, to repair such damage, in which event this Lease shall continue in full force and effect, but the Base Rent shall be partially abated as provided in Section 19a. If Landlord does not so elect to make such repairs, this Lease shall terminate as of the date of such fire or other casualty.

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- c. If any other portion of the Building or Project is totally destroyed or damaged to the extent that in Landlord's opinion repair thereof cannot be completed within ninety (90) days, Landlord may elect upon notice to Tenant given within thirty (30) days after the date of such fire or other casualty, to repair such damage, in which event this Lease shall continue in full force and effect, but the Base Rent shall be partially abated as provided in Section 19a. If Landlord does not so elect to make such repairs, this Lease shall terminate as of the date of such fire or other casualty.
- d. If the Premises are to be repaired under this Article, Landlord shall repair at its cost any injury or damage to the Building and Building Standard Work in the Premises. Tenant shall be responsible at its sole cost and expense for the repair, restoration, and replacement of any other Leasehold Improvements and Tenant's Property. Landlord shall not be liable for any loss of business, inconvenience or annoyance arising from any repair or restoration of any portion of the Premises, Building, or Project as a result of any damage from fire or other casualty.
- e. This Lease shall be considered an express agreement governing any case of damage to or destruction of the Premises, Building, or Project by fire or other casualty, and any present or future law which purports to govern the rights of Landlord and Tenant in such circumstances in the absent of express agreement, shall have no application.

20. EMINENT DOMAIN.

- a. If the whole of the Building or Premises is lawfully taken by condemnation or in any other manner for any public or quasi-public purpose, this Lease shall terminate as of the date of such taking, and Rent shall be prorated to such date. If less than the whole of the Building or Premises is so taken, this Lease shall be unaffected by such taking, provided that (i) Tenant shall have the right to terminate this Lease by notice to Landlord given within ninety (90) days after the date of such taking if twenty percent (20%) or more of the Premises is taken and the remaining area of the Premises is not reasonably sufficient for Tenant to continue operation of its business, and (ii) Landlord shall have the right to terminate this Lease by notice to Tenant given within ninety (90) days after the date of such taking. If either Landlord or Tenant so elects to terminate this Lease, the Lease shall terminate on the thirtieth (30th) day after either such notice. The Rent shall be prorated to the date of termination. If this Lease continues in force upon such partial taking, the Base Rent and Tenant's Proportionate Share shall be equitably adjusted according to the remaining Rentable Area of the Premises and Project.
- b. In the event of any taking, partial or whole, all of the proceeds of any award, judgment, or settlement payable by the condemning authority shall be the exclusive property of Landlord, and Tenant hereby assigns to Landlord all of its right, title, and interest in any award, judgment, or settlement from the condemning authority. Tenant, however, shall have the right, to the extent that Landlord's award is not reduced or prejudiced, to claim from the condemning authority (but not from Landlord) such compensation as may be recoverable by Tenant in its own right for relocation expenses and damage to Tenant's personal property.
- c. In the event of a partial taking of the Premises which does not result in a termination of this Lease, Landlord shall restore the remaining portion of the Premises as nearly as practicable to its condition prior to the condemnation or taking, but only to the extent of Building Standard Work. Tenant shall be responsible at its sole cost and expenses for the repair, restoration, and replacement of any other Leasehold improvements and Tenant's Property.

21. INDEMNIFICATION.

- a. Tenant shall indemnify and hold Landlord harmless against and from liability and claims of any kind for loss or damage to property of Tenant or any other person, or for any injury to or death of any person, arising out of: (1) Tenant's use and occupancy of the Premises, or any work, activity, or other things allowed or suffered by Tenant to be done in, on, or about the Premises; (2) any breach or default by Tenant of any of the Tenant's obligations under this Lease; or (3) any negligent or otherwise tortuous act or omission of Tenant, its agents, employees, invitees, or contractors. Tenant shall at Tenant's expense and by counsel satisfactory to Landlord, defend Landlord in any action or proceeding arising from any such claim and shall indemnify Landlord against all costs, attorneys' fees, expert witness fees, and any other expenses incurred in such action or proceeding. As a material part of the consideration for Landlord's execution of this Lease, Tenant hereby assumes all risk of damage or injury to any person or property in, on, or about the Premises from any cause.
- b. Landlord shall not be liable for injury or damage which may be sustained by the person or property of Tenant, its employees, invitees, or customers or any other person in or about the Premises, caused by or resulting from fire, steam, electricity, gas, water, or rain which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction, or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning, or lighting fixtures, whether such damage or injury results from conditions arising upon the Premises or upon other portions of the Building or Project or from other sources. Landlord shall not be liable for any damages arising from any act or omission of any other tenant of the Building or Project.

22. TENANT'S INSURANCE.

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- a. All insurance required to be carried by Tenant hereunder shall be issued by responsible insurance companies acceptable to Landlord and Landlord's lender and qualified to do business in the State. Each policy shall name Landlord, and at Landlord's request any mortgagee of Landlord, as an additional insured, as their respective interests may appear. Each policy shall contain (i) a cross-liability endorsement, (ii) a provision that such policy and the coverage evidenced thereby shall be primary and non-contributing with respect to any policies carried by Landlord and that any coverage carried by Landlord shall be excess insurance, and (iii) a waiver by the insurer of any right of subrogation against Landlord, its agents, employees, and representatives, which arises or might arise by reason of any payment under such policy or by reason of any act or omission of Landlord, its agents, employees, or representatives. A copy of each paid up policy (authenticated by the insurer) or certificate of the insurer evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord before the date Tenant is first given the right of possession of the Premises, and thereafter within thirty (30) days after any demand by Landlord therefore. Landlord may, at any time and from time to time, inspect and/or copy any insurance policies required to be maintained by Tenant hereunder. No such policy shall be cancelable except after twenty (20) days written notice to Landlord and Landlord's lender. Tenant shall furnish Landlord with renewals or "binders" of any such policy at least ten (10) days prior to the expiration thereof. Tenant agrees that if Tenant does not take out and maintain such insurance, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge the Tenant the premiums together with a twenty-five percent (25%) handling charge, payable upon demand. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by the Tenant, provided such blanket policies expressly afford coverage to the Premises, Landlord, Landlord's mortgagee, and Tenant as required by this Lease.
- b. Beginning on the date Tenant is given access to the Premises for any purpose and continuing until expiration of the Term, Tenant shall procure, pay for and maintain in effect policies of casualty insurance covering (i) all Leasehold Improvements (including any alterations, additions, or improvements as may be made by Tenant pursuant to the provisions of Article 12 hereof), and (ii) trade fixtures, merchandise, and other personal property from time to time in, on, or about the Premises, in an amount not less than one hundred percent (100%) of their actual replacement cost from time to time, providing protection against any peril included within the classification "Fire and Extended Coverage" together with insurance against sprinkler damage, vandalism, and malicious mischief. The proceeds of such insurance shall be used for the repair or replacement of the property so insured. Upon termination of this Lease following a casualty as set forth herein, the proceeds under (i) above be paid to Landlord, and the proceeds under (ii) above be paid to Tenant.
- c. Beginning on the date Tenant is given access to the Premises for any purpose and continuing until expiration of the Term, Tenant shall procure, pay for, and maintain in effect worker's compensation insurance as required by law and comprehensive public liability and property damage insurance with respect to the construction of improvements on the Premises, the use, operation, or condition of the Premises, and the operations of Tenant in, on, or about the Premises, providing broad form property damage coverage for not less than Five Hundred Thousand Dollars (\$500,000) per person and One Million Dollars (\$1,000,000) each occurrence, and property damage liability insurance with a limit of not less than Two Hundred Fifty Thousand Dollars (\$250,000) each accident.
- d. Not less than every three (3) years during the Term, Landlord and Tenant shall mutually agree to increases in all of Tenant's insurance policy limits for all insurance to be carried by Tenant as set forth in this Article. In the event Landlord and Tenant cannot mutually agree upon the amounts of said increases, then Tenant agrees that all insurance policy limits as set forth in this Article shall be adjusted for increases in the cost of living in the same manner as is set forth in Section 5.2 hereof for the adjustment of the Base Rent.

23. WAIVER OF SUBROGATION.

Landlord and Tenant each hereby waive all rights or recovery against the other and against the officers, employees, agents, and representatives of the other, on account of loss by or damage to the waiving party of its property or the property of others under its control, to the extent that such loss or damage is insured against under any fire and extended coverage insurance policy which either may have in force at the time of the loss or damage. Tenant shall, upon obtaining the policies of insurance required under this Lease, give notice to its insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

24. SUBORDINATION AND ATTORNMENT.

Upon written request of Landlord, or any first mortgagee or first deed of trust beneficiary of Landlord, or ground lessor of Landlord, Tenant shall, in writing, subordinate its rights under this Lease to the lien of any first mortgage or first deed of trust, or to the interest of any lease in which Landlord is lessee, and to all advances made or thereafter to be made thereunder. However, before signing any subordination agreement, Tenant shall have the right to obtain from any lender or lessor or Landlord requesting such subordination, an agreement in writing providing that, as long as Tenant is not in default hereunder, this Lease shall remain in effect for the full Term. The holder of any security interest may, upon written notice to Tenant, elect to have this Lease prior to its security interest regardless of the time of the granting or recording of such security interest.

In the event of any foreclosure sale, transfer in lieu of foreclosure, or termination of the lease in which Landlord is lessee, Tenant shall attorn to the purchaser, transferee, or lessor, as the case may be, and recognize that party as Landlord under this Lease provided such party acquires and accepts the Premises subject to this Lease.

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25. TENANT ESTOPPEL CERTIFICATE.

Within ten (10) days after written request from Landlord, Tenant shall execute and deliver to Landlord or Landlord's designee, a written statement certifying (a) that this lease is unmodified and in full force and effect, or is in full force and effect as modified and stating the modifications; (b) the amount of Base Rent and the date to which Base Rent and additional rent have been paid in advance; (c) the amount of any security deposited with Landlord; and (d) that Landlord is not in default hereunder or, if Landlord is claimed to be in default, stating the nature of any claimed default. Any such statement may be relied upon by a purchaser, assignee, or lender. Tenant's failure to execute and deliver such statement within the time required shall at Landlord's election be a default under this Lease and shall also be conclusive upon Tenant that: (1) this Lease is in full force and effect and has not been modified except as represented by Landlord; (2) there are no uncured defaults in Landlord's performance and that Tenant has no right of offset, counter-claim, or deduction against Rent; and (3) not more than one month's Rent has been paid in advance.

26. TRANSFER OF LANDLORD'S INTEREST.

In the event of any sale or transfer by Landlord of the Premises, Building, or Project, and assignment of this Lease by Landlord, Landlord shall be and is hereby entirely freed and relieved of any and all liability and obligations contained in or derived from this Lease arising out of any act, occurrence, or omission relating to the Premises, Building, Project, or Lease occurring after the consummation of such sale or transfer, providing the purchaser shall expressly assume all of the covenants and obligations of Landlord under this Lease. If any security deposit or prepaid Rent has been paid by Tenant, Landlord may transfer the security deposit or prepaid Rent to Landlord's successor and upon such transfer, Landlord shall be relieved of any and all further liability with respect thereto.

27. DEFAULT.

27.1. *Tenant's Default.* The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant:

- a. If Tenant abandons or vacates the Premises; or
- b. If Tenant fails to pay any Rent or any other charges required to be paid by Tenant under this Lease and such failure continues for five (5) days after such payment is due and payable; or
- c. If Tenant fails to promptly and fully perform any other covenant, condition, or agreement contained in this lease and such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant; or
- d. If a writ of attachment or execution is levied on this Lease or on any of Tenant's Property; or
- e. If Tenant makes a general assignment for the benefit of creditors, or provides for an arrangement, composition, extension or adjustment with its creditors; or
- f. If Tenant files a voluntary petition for relief or if a petition against Tenant in a proceeding under the federal bankruptcy laws or other insolvency laws is filed and not withdrawn or dismissed within forty-five (45) days thereafter, or if under the provisions of any law providing for reorganization or winding up of corporations, any court of competent jurisdiction assumes jurisdiction, custody, or control of Tenant or any substantial part of its property and such jurisdiction, custody, or control remains in force unrelinquished, unstayed, or unterminated for a period of forty-five (45) days; or
- g. If in any proceeding or action in which Tenant is not a party, a trustee, receiver, agent, or custodian is appointed to take charge of the Premises or Tenant's Property (or has the authority to do so) for the purpose of enforcing a lien against the Premises or Tenant's Property; or
- h. If Tenant is a partnership or consists of more than one (1) person or entity, if any partner of the partnership or other person or entity is involved in any of the acts or events described in subparagraphs d through g above.

27.2. *Remedies.* In the event of Tenant's default hereunder, then, in addition to any other rights or remedies Landlord may have under any law, Landlord shall have the right, at Landlord's option, without further notice or demand of any kind to do the following:

- a. Terminate this Lease and Tenant's right to possession of the Premises and re-enter the Premises and take possession thereof, and Tenant shall have no further claim to the Premises or under this Lease; or
- b. Continue this Lease in effect, re-enter and occupy the Premises for the account of Tenant, and collect any unpaid Rent or other charges which have or thereafter become due and payable; or
- c. Re-enter the Premises under the provisions of subparagraph b and thereafter elect to terminate this Lease and Tenant's right to possession of the Premises.

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If Landlord re-enters the Premises under the provisions of subparagraph b or c above, Landlord shall not be deemed to have terminated this Lease or the obligation of Tenant to pay any Rent or other charges thereafter accruing, unless Landlord notifies Tenant in writing of Landlord's election to terminate this Lease. In the event of any re-entry or retaking of possession by Landlord, Landlord shall have the right, but not the obligation, to remove all or any part of Tenant's Property in the Premises and to place such property in storage at a public warehouse at the expense and risk of Tenant. If Landlord elects to relet the Premises for the account of Tenant, the rent received by Landlord from such reletting shall be applied as follows: first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; second, to the payment of any costs of such reletting; third, to the payment of the cost of any alterations or repairs to the Premises; fourth, to the payment of Rent due and unpaid hereunder; and the balance, if any, shall be held by Landlord and applied in payment of future Rent as it becomes due. If that portion of rent received from the reletting, which is applied against, the Rent due hereunder is less than the amount of the Rent due, Tenant shall pay the deficiency to Landlord promptly upon demand by Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as determined, any costs and expenses incurred by Landlord in connection with such reletting or in making alterations and repairs to the Premises, which are not covered by the rent received from the reletting.

Should Landlord elect to terminate this Lease under the provisions of subparagraph a or c above, Landlord may recover as damages from Tenant the following:

- (1.) *Past Rent.* The worth at the time of the award of any unpaid Rent which had been earned at the time of termination; plus
- (2.) *Rent Prior to Award.* The worth at the time of the award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus
- (3.) *Rent After Award.* The worth at the time of the award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of the rental loss that Tenant provides could be reasonably avoided; plus
- (4.) *Proximately Caused Damages.* Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom including, but not limited to, any costs or expenses (including attorneys' fees) incurred by Landlord in (a) retaking possession of the Premises, (b) maintaining the Premises after Tenant's default, (c) preparing the Premises for reletting to a new tenant, including any repairs or alterations, and (d) reletting the Premises, including broker's commissions.

"The worth at the time of the award@ as used in subparagraphs 1 and 2 above is to be computed by allowing interest at the rate of ten percent (10%) per annum." The worth at the time of the award@ as used in subparagraph 3 above is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank situated nearest to the Premises at the time of the award plus one percent (1%).

The waiver by Landlord of any breach of any term, covenant, or condition of this Lease shall not be deemed a waiver of such term, covenant, or condition or of any subsequent breach of the same or any other term, covenant, or condition. Acceptance of Rent by Landlord subsequent to any breach hereof shall not be deemed a waiver of any preceding breach other than the failure to pay the particular Rent so accepted, regardless of Landlord's knowledge of any breach at the time of such acceptance of Rent. Landlord shall not be deemed to have waived any term, covenant, or condition unless Landlord gives Tenant written notice of such waiver.

- 27.3 *Landlord's Default.* If Landlord fails to perform any covenant, condition, or agreement contained in this Lease within thirty (30) days after receipt of written notice from Tenant specifying such default, or if such default cannot reasonably be cured within thirty (30) days, if Landlord fails to commence to cure within that thirty (30) day period, then Landlord shall be liable to Tenant for any damages sustained by Tenant as a result of Landlord's breach; provided, however, it is expressly understood and agreed that if Tenant obtains a money judgment against Landlord resulting from any default or other claim arising under this Lease, that judgment shall be satisfied only out of the rents, issues, profits, and other income actually received on account of Landlord's right, title, and interest in the Premises, Building, or Project, and no other real, personal, or mixed property of Landlord (or of any of the partners which comprise Landlord, if any) wherever situated, shall be subject to levy to satisfy such judgment. If, after notice to Landlord of default, Landlord (or any first mortgagee or first deed of trust beneficiary of Landlord) fails to cure the default as provided herein, then Tenant shall have the right to cure that default at Landlord's expense. Tenant shall not have the right to terminate this Lease or to withhold, reduce, or offset any amount against any payments of Rent or any other charges due and payable under this Lease, except as otherwise specifically provided herein.

28. BROKERAGE FEES.

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Tenant warrants and represents that it has not dealt with any real estate broker or agent in connection with this Lease or its negotiation except those noted in Section 2.c. Tenant shall indemnify and hold Landlord harmless from any cost, expenses, or liability (including costs of suit and reasonable attorneys' fees) for any compensation, commission, or fees claimed by any other real estate broker or agent in connection with this Lease or its negotiation by reason of any act of Tenant.

29. NOTICES.

All notices, approvals, and demands permitted or required to be given under this Lease shall be in writing and deemed duly served or given if personally delivered or sent by certified or registered U.S. mail, postage prepaid, and addressed as follows: (a) if to Landlord, to Landlord's Mailing Address and to the Building manager, and (b) if to Tenant, to Tenant's Mailing Address; provided, however, notices to Tenant shall be deemed duly served or given if delivered or mailed to Tenant at the Premises. Landlord and Tenant may from time to time by notice to the other designate another place for receipt of future notices.

30. GOVERNMENT ENERGY OR UTILITY CONTROLS.

In the event of imposition of federal, state, or local government controls, rules, regulations, or restrictions on the use or consumption of energy or other utilities during the Term, both Landlord and Tenant shall be bound thereby. In the event of a difference in interpretation by Landlord and Tenant of any such controls, the interpretation of Landlord shall prevail, and Landlord shall have the right to enforce compliance therewith, including the right of entry into the Premises to effect compliance.

31. RELOCATION OF PREMISES.

Landlord shall have the right to relocate the Premises to another part of the Building in accordance with the following:

- a. The new premises shall be substantially the same in size, dimension, configuration, decor and nature as the Premises described in this Lease, and if the relocation occurs after the Commencement Date, shall be placed in that condition by Landlord at its cost.
- b. Landlord shall give Tenant at least thirty (30) days written notice of Landlord's intention to relocate the Premises.
- c. As nearly as practicable, the physical relocation of the Premises shall take place on a weekend and shall be completed before the following Monday. If the physical relocation has not been completed in that time, Base Rent shall abate in full from the time the physical relocation commences to the time it is completed. Upon completion of such relocation, the new premises shall become the "Premises" under this Lease.
- d. All reasonable costs incurred by Tenant as a result of the relocation shall be paid by Landlord.
- e. If the new premises are smaller than the Premises as it existed before the relocation, Base Rent shall be reduced proportionately.
- f. The parties hereto shall immediately execute an amendment to this Lease setting forth the relocation of the Premises and the reduction of Base Rent, if any.

32. QUIET ENJOYMENT.

Tenant, upon paying the Rent and performing all of its obligations under this Lease, shall peaceably and quietly enjoy the Premises, subject to the terms of this Lease and to any mortgage, lease, or other agreement to which this Lease may be subordinate.

33. OBSERVANCE OF LAW.

Tenant shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force, and with the requirements of any board of fire insurance underwriters or other similar bodies now or hereafter constituted, relating to, or affecting the condition, use or occupancy of the Premises, excluding structural changes not related to or affected by Tenant's improvements or acts. The judgment of any court of competent jurisdiction or the admission of Tenant in any action against Tenant, whether Landlord is a party thereto or not, that Tenant has violated any law, ordinance or governmental rule, regulation or requirement, shall be conclusive of that fact as between Landlord and Tenant.

34. FORCE MAJEURE.

Any prevention, delay or stoppage of work to be performed by Landlord or Tenant which is due to strikes, labor disputes, inability to obtain labor, materials, equipment or reasonable substitutes therefore, acts of God, governmental restrictions or regulations or controls, judicial orders, enemy or hostile government actions, civil commotion, fire or other casualty, or other causes beyond the reasonable control of the party obligated to perform hereunder, shall excuse performance of the work by that party for a period equal to the duration of that prevention, delay or stoppage. Nothing in this Article 34 shall excuse or delay Tenant's obligation to pay Rent or other charges under this Lease.

35. CURING TENANT’S DEFAULTS.

If Tenant defaults in the performance of any of its obligations under this Lease, Landlord may (but shall not be obligated to) without waiving such default, perform the same for the account at the expense of Tenant. Tenant shall pay Landlord all costs of such performance promptly upon receipt of a bill therefore.

36. SIGN CONTROL.

Tenant shall not affix, paint, erect or inscribe any sign, projection, awning, signal or advertisement of any kind to any part of the Premises, Building or Project, including without limitation, the inside or outside of windows or doors, without the written consent of Landlord. Landlord shall have the right to remove any signs or other matter, installed without Landlord's permission, without being liable to Tenant by reason of such removal, and to charge the cost of removal to Tenant as additional rent hereunder, payable within ten (10) days of written demand by Landlord.

37. MISCELLANEOUS.

- a. *Accord and Satisfaction; Allocation of Payments:* No payment by Tenant or receipt by Landlord of a lesser amount than the Rent provided for in this Lease shall be deemed to be other than on account of the earliest due Rent, nor shall any endorsement or statement on any check or letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of the Rent or pursue any other remedy provided for in this Lease. In connection with the foregoing, Landlord shall have the absolute right in its sole discretion to apply any payment received from Tenant to any account or other payment of Tenant then not current and due or delinquent.
- b. *Addenda:* If any provision contained in an addendum to this Lease is inconsistent with any other provision herein, the provision contained in the addendum shall control, unless otherwise provided in the addendum.
- c. *Attorneys' Fees:* If any action or proceeding is brought by either party against the other pertaining to or arising out of this Lease, the finally prevailing party shall be entitled to recover all costs and expenses, including reasonable attorneys' fees, incurred on account of such action or proceeding.
- d. *Captions, Articles and Section Numbers:* The captions appearing within the body of this Lease have been inserted as a matter of convenience and for reference only and in no way define, limit or enlarge the scope or meaning of this Lease. All references to Article and Section numbers refer to Articles and Sections in this Lease.
- e. *Changes Requested by Lender:* Neither Landlord or Tenant shall unreasonably withhold its consent to changes or amendments to this Lease requested by the lender on Landlord's interest, so long as these changes do not alter the basic business terms of this Lease or otherwise materially diminish any rights or materially increase any obligations of the party from whom consent to such charge or amendment is requested.
- f. *Choice of Law:* This Lease shall be construed and enforced in accordance with the laws of the State of California.
- g. *Consent:* Notwithstanding anything contained in this Lease to the contrary, Tenant shall have no claim, and hereby waives the right to any claim against Landlord for money damages by reason of any refusal, withholding or delaying by Landlord of any consent, approval or statement of satisfaction, and in such event, Tenant's only remedies therefore shall be an action for specific performance, injunction or declaratory judgment to enforce any right to such consent, etc.
- h. *Corporate Authority:* If Tenant is a corporation, each individual signing this Lease on behalf of Tenant represents and warrants that he is duly authorized to execute and deliver this lease on behalf of the corporation, and that this Lease is binding on Tenant in accordance with its terms. Tenant shall, at Landlord's request, deliver a certified copy of a resolution of its board of directors authorizing such execution.
- i. *Counterparts:* This Lease may be executed in multiple counterparts, all of which shall constitute one and the same Lease.
- j. *Execution of Lease; No Option:* The submission of this Lease to Tenant shall be for examination purposes only, and does not and shall not constitute a reservation of or option for Tenant to lease, or otherwise create any interest of Tenant in the Premises or any other premises within the Building or Project. Execution of this Lease by Tenant

and its return to Landlord shall not be binding on Landlord notwithstanding any time interval, until Landlord has in fact signed and delivered this Lease to Tenant.

- k. *Furnishing of Financial Statements; Tenant's Representations:* In order to induce Landlord to enter into this Lease, Tenant agrees that it shall promptly furnish Landlord, from time to time, upon Landlord's written request, with financial statements reflecting Tenant's current financial condition. Tenant represents and warrants that all financial statements, records and information furnished by Tenant to Landlord in connection with this Lease are true, correct and complete in all respects.
- l. *Further Assurances:* The parties agree to promptly sign all documents reasonably requested to give effect to the provisions of this Lease.
- m. *Mortgagee Protection:* Tenant agrees to send by certified or registered mail to any first mortgagee or first deed of trust beneficiary of Landlord whose address has been furnished to Tenant, a copy of any notice of default served by Tenant on Landlord. If Landlord fails to cure such default within the time provided for in this Lease, such mortgagee or beneficiary shall have an additional thirty (30) days to cure such default; provided that if such default cannot reasonably be cured within that thirty (30) day period, then such mortgagee or beneficiary shall have such additional time to cure the default as is reasonably necessary under the circumstances.
- n. *Prior Agreements; Amendments:* This Lease contains all of the agreements of the parties with respect to any matter covered or mentioned in this Lease, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provisions of this Lease may be amended or added to except by an agreement in writing signed by the parties or their respective successors in interest.
- o. *Recording:* Tenant shall not record this Lease without the prior written consent of Landlord. Tenant, upon the request of Landlord, shall execute and acknowledge a "short form" memorandum of this Lease for recording purposes.
- p. *Severability:* A final determination by a court of competent jurisdiction that any provision of this Lease is invalid shall not affect the validity of any other provision, and any provision so determined to be invalid shall, to the extent possible, be construed to accomplish its intended effect.
- q. *Successors and Assigns:* This Lease shall apply to and bind the heirs, personal representatives, and permitted successors and assigns of the parties.
- r. *Time of the Essence:* Time is of the essence of this Lease.
- s. *Waiver:* No delay or omission in the exercise of any right or remedy of Landlord upon any default by Tenant shall impair such right or remedy or be construed as a waiver of such default.
- t. *Compliance:* The parties hereto agree to comply with all applicable federal, state and local laws, regulations, codes, ordinances and administrative orders having jurisdiction over the parties, property or the subject matter of this Agreement, including, but not limited to, the 1964 Civil Rights Act and all amendments thereto, the Foreign Investment In Real Property Tax Act, the Comprehensive Environmental Response Compensation and Liability Act, and The Americans With Disabilities Act.

The receipt and acceptance by Landlord of delinquent Rent shall not constitute a waiver of any other default; it shall constitute only a waiver of timely payment for the particular Rent payment involved.

No act or conduct of Landlord, including, without limitation, the acceptance of keys to the Premises, shall constitute an acceptance of the surrender of the Premises by Tenant before the expiration of the Term. Only a written notice from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish a termination of the Lease.

Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant.

Any waiver by Landlord of any default must be in writing and shall not be a waiver of any other default concerning the same or other provision of the Lease.

The parties hereto have executed this Lease as of the dates set forth below.

Date:	_____	Date:	_____
Landlord:	<u>Desert Healthcare District</u>	Tenant:	<u>Pathway Pharmaceuticals, Inc.</u>
	<u>dba: Las Palmas Medical Plaza</u>		<u>dba: Las Palmas Pharmacy</u>
By:	<u>Conrado Bárzaga</u>	By:	_____

_____ District _____ Recipient

Signature: _____

Title: CEO

Signature: _____

Title: _____

CONSULT YOUR ADVISORS This document has been prepared for approval by your attorney. No representation or recommendation is made as to the legal sufficiency or tax consequences of this document or the transaction to which it relates. These are questions for your attorney.

In any real estate transaction, it is recommended that you consult with a professional, such as a civil engineer, industrial hygienist or other person, with experience in evaluating the condition of the property, including the possible presence of asbestos, hazardous materials and underground storage tanks.

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EXHIBIT "A"

RULES AND REGULATIONS

1. No sign, placard, pictures, advertisement, name or notice shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of the Building without the written consent of Landlord first had and obtained and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant.

All approved signs or lettering on entry door and directory shall be printed, painted, affixed, or inscribed at the expense of Landlord by a person approved by Landlord outside the Premises; provided, however, that Landlord may furnish and install a Building standard interior window covering at all exterior windows. Tenant shall not, without prior written consent of Landlord, cause or otherwise sunscreen any window.

2. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the tenants or used by them for any purpose other than for ingress and egress from their respective Premises.
3. Tenant shall not alter any lock or install any new or additional locks or any bolts on any doors or windows of the Premises.
4. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of the rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it.
5. Tenant shall not overload the floor of the Premises or in any way deface the Premises or any part thereof.
6. No furniture, freight or equipment of any kind shall be brought into the Building without the prior notice to Landlord and all moving of the same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant.
7. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substances in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises of the Building.
8. No cooking shall be done or permitted by any Tenant on the Premises, nor shall the Premises be used for storage of merchandise, for washing clothes, for lodging or for any improper, objectionable or immoral purposes.
9. Tenant shall not use or keep in the Premises or the Building any kerosene, gasoline or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord.
10. Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of the Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.
11. On Saturdays, Sundays and legal holidays, and on other days between the hours of 6:00 p.m. and 8:00 a.m. the following day, access to the Building or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the person seeking access is known to the person or employee of the Building in charge and has a pass or is properly identified. The Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, the Landlord reserves the right to prevent access to the Building during the continuance of the same by closing of the doors or otherwise, for the safety of the tenants and protection of property in the Building and the Building.
12. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.
13. No vending machine or machines of any description shall be installed, maintained or operated upon the Premises without the written consent of the Landlord.

_____ District _____ Recipient

- 14. Landlord shall have the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building of which the Premises are a part.
- 15. Tenant shall not disturb, solicit, or canvass any occupant of the Building and shall cooperate to prevent same.
- 16. Without the written consent of Landlord, Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.
- 17. Landlord shall have the right to control and operate the public portions of the Building, and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of the tenants, in such manner as it deems best for the benefit of the tenants generally.
- 18. All entrance doors in the Premises shall be left locked when the Premises are not in use, and all doors opening to public corridors shall be kept closed except for normal ingress and egress from the Premises.

Landlord's Initials

Tenant's Initials

DRAFT

ADDENDUM

Addendum to that certain Office Building Lease dated November 1, 2022 by and between Desert Healthcare District doing business as the Las Palmas Medical Plaza, as Landlord and Pathway Pharmaceuticals, Inc., doing business as Las Palmas Pharmacy, as Tenant for the property commonly known as Las Palmas Medical Plaza located 555 E. Tachevah Drive, Palm Springs, California 92262.

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In the event of any inconsistency between the Addendum language and the body of the Lease, the Addendum language shall prevail.

1. Commencement Date:

January 1, 2023
2. Expiration Date:

December 31, 2027
3. Rent Schedule:

01/01/2023 – 12/31/2023	\$1,787.52	
01/01/2024 – 12/31/2024	\$1,841.15	Greater of 3% or CPI
01/01/2025 – 12/31/2025	\$1,896.38	Greater of 3% or CPI
01/01/2026 – 12/31/2026	\$1,953.27	Greater of 3% or CPI
01/01/2027 – 12/31/2027	\$2,011.87	Greater of 3% or CPI
4. CAMs:

\$0.69 per square foot
5. Security Deposit:

Carry over from previous lease in the amount of One Thousand, Six Hundred and Seventeen Dollars and 28/100 (\$1,617.28).

The foregoing is hereby agreed to and accepted:

Date:	_____	Date:	_____
Landlord:	<u>Desert Healthcare District</u>	Tenant:	<u>Pathway Pharmaceuticals, Inc.</u>
	<u>dba: Las Palmas Medical Plaza</u>		<u>dba: Las Palmas Pharmacy</u>
By:	<u>Conrado Bárzaga</u>	By:	_____
Signature:	_____	Signature:	_____
Title:	<u>CEO</u>	Title:	_____