

DESERT HEALTHCARE DISTRICT
PALM SPRINGS, CALIFORNIA
INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

DESERT HEALTHCARE DISTRICT

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INDEPENDENT AUDITORS' REPORT

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

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2020, 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.

Required Supplementary Information

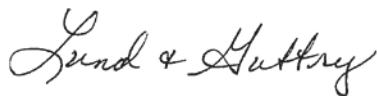
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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.

Report on Summarized Comparative Information

The financial statements of Desert Healthcare District for the year ended June 30, 2019, were audited by other auditors whose report dated October 1, 2019, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2020, 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.



October 13, 2020

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020 AND 2019

The Desert Healthcare District (the District) has issued its financial statements for the fiscal years ended June 30, 2020 and June 30, 2019 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 2020 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 30, 2020 AND 2019

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 2020 and 2019.

	<u>Table A</u>		
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>Change</u>
Assets:			
Cash and cash equivalents	\$ 7,613,546	\$ 12,052,794	\$ (4,439,248)
Investments	54,366,920	48,228,320	6,138,600
Capital assets, net	11,464,523	11,972,558	(508,035)
All Other Assets	457,128	249,194	207,934
Total Assets	\$ 73,902,117	\$ 72,502,866	\$ 1,399,251
Deferred Outflows:			
GASB 68 Reporting for Pension Plans	\$ 1,204,238	\$ 1,159,189	\$ 45,049
GASB 75 Reporting for OPEB Plans	11,114	14,147	(3,033)
Total Deferred Outflows	\$ 1,215,352	\$ 1,173,336	\$ 42,016
Liabilities:			
Grants payable	\$ 9,748,358	\$ 12,809,355	\$ (3,060,997)
Net Pension Liability	4,604,254	3,395,623	1,208,631
All Other Liabilities	480,999	620,125	(139,126)
Total Liabilities	\$ 14,833,611	\$ 16,825,103	\$ (1,991,492)
Deferred Inflows:			
GASB 68 Reporting for Pension Plans	\$ 370,700	\$ 1,643,743	\$ (1,273,043)
Total Deferred Inflows	\$ 370,700	\$ 1,643,743	\$ (1,273,043)
Net Assets:			
Net investment in capital assets	\$ 11,464,523	\$ 11,972,558	\$ (508,035)
Unrestricted	48,448,635	43,234,798	5,213,837
Restricted	-	-	-
Total Net Position	\$ 59,913,158	\$ 55,207,356	\$ 4,705,802

The \$4,705,802 increase in Total Net Position is due to the net income of \$4,705,802 for the current fiscal year ended June 30, 2020. This compares to a net income of \$4,252,508 for the fiscal year ended June 30, 2019. The increase is primarily due to a net combination of increased Property Tax Revenue of \$194,387, increased Contributions received of \$150,000, increased RPP Pension Expense of \$460,555, decreased Election Fees of \$109,347, and decreased Grant Expense of \$452,819. The \$4,439,248 decrease in Cash and cash equivalents and \$6,138,600 increase in Investments is due primarily to an increase in the Investment account. The \$508,035 decrease in Capital Assets is due primarily to depreciation of capital assets. The \$207,934 increase in All Other Assets is due primarily to Rent Receivable deferred because of COVID-19. The \$3,060,997 decrease in Grants Payable is due primarily to larger grant disbursements than new accrued grants. The \$1,208,631 increase in Net Pension Liability is due primarily to a change in actuarial assumptions. The \$139,126 decrease in All Other Liabilities is due primarily to a decrease in Accounts Payable. The \$1,273,043 decrease in Deferred Inflows is due to a timing difference in the actuarial valuation for GASB 68 reporting for the RPP.

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020 AND 2019

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, 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 2020 results to Fiscal Year 2019.

Table B

	<u>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>
Revenue:			
Property Tax Revenue	\$ 7,166,583	\$ 6,972,196	\$ 194,387
Rental income	1,218,339	1,203,940	14,399
All other income	237,070	125,687	111,383
Total Revenue	<u>\$ 8,621,992</u>	<u>\$ 8,301,823</u>	<u>\$ 320,169</u>
Expenses:			
Grants program	\$ 3,174,052	\$ 3,626,871	\$ (452,819)
Administrative Expense	2,892,970	2,553,703	339,267
Total Expense	<u>\$ 6,067,022</u>	<u>\$ 6,180,574</u>	<u>\$ (113,552)</u>
Nonoperating Income(Expenses)	<u>\$ 2,150,832</u>	<u>\$ 2,131,259</u>	<u>19,573</u>
Net Income	<u>\$ 4,705,802</u>	<u>\$ 4,252,508</u>	<u>\$ 453,294</u>

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020 AND 2019

Revenue

Property taxes are the District's primary source of operating revenues. The property tax revenue for the fiscal year ended June 30, 2020 was \$7,166,583, which was an increase of \$194,387 from the fiscal year ended June 30, 2019.

Rental income of \$1,218,339 for the fiscal year ended June 30, 2020 was \$14,399 higher than the fiscal year ended June 30, 2019.

All other income for the fiscal year ended June 30, 2020 increased \$111,383 compared to the fiscal year ended June 30, 2019. The increase was due primarily to external contributions received.

Expenses

Grant Program expense for the fiscal year ended June 30, 2020 decreased by \$452,819 compared to the fiscal year ended June 30, 2019. This is due primarily to decreased 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, 2020 increased \$339,223 from the fiscal year ended June 30, 2019. The increase is due to various expenses including higher Retirement Protection Plan Pension Expense of \$452,503 and lower election fees expense of \$109,347.

CAPITAL ASSETS

At June 30, 2020, the District had \$22,435,784 in capital assets and \$10,971,261 accumulated depreciation, resulting in \$11,464,523 net capital assets. At June 30, 2019, the District had \$22,348,945 in capital assets and \$10,376,387 in accumulated depreciation, resulting in \$11,972,558 net capital assets.

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

Table C

	Balance	Net	Net	Balance	Net	Net	Balance
	6/30/18	Additions	Retirements	6/30/19	Additions	Retirements	6/30/20
Cost	\$ 22,121,177	\$ 230,526	\$ (2,758)	\$ 22,348,945	\$ 132,325	\$ (45,486)	\$ 22,435,784
Acc. Depreciation	(9,739,013)	(639,405)	2,031	(10,376,387)	(640,360)	45,486	(10,971,261)
Capital Assets, Net	\$ 12,382,164	\$ (408,879)	\$ (727)	\$ 11,972,558	\$ (508,035)	\$ -	\$ 11,464,523

DEBT ADMINISTRATION

The District has no outstanding debt.

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020 AND 2019

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Fiscal Year 2021 budget reflects revenues of \$8,946,270 and operating expenses of \$8,902,204. Capital expenditures are budgeted at \$485,000. The Desert Healthcare District/Foundation adopted a 1-Year Strategic Plan, with five Community Health Focus Areas: Healthcare Infrastructure/Services, Behavioral/Mental Health, Homelessness, Vital Human Services to People with Chronic Conditions, and Economic Protection/Recovery/Food Security. The District/Foundation continues to work on connecting District residents to programs and services to meet their healthcare needs. 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 District will be seeking resources to fund the access to programs and services; and grant funding for the residents of the expanded area.

During the fiscal year ended June 30, 2020, the District awarded \$3,201,070 in new grants and distributed grants in the amount of \$6,140,621. Projected new grants to be awarded for the fiscal year 2020–2021 amount to \$4,000,000 and distributions for grants could possibly total \$6,718,150 due to the existing grant liability as of June 30, 2020 and the projected grant awards.

The District has also established a reserve fund of approximately \$59,000,000 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 will be 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, which ranges between \$119,000,000 and \$180,000,000, and is reviewing options for timely 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

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DESERT HEALTHCARE DISTRICT

STATEMENTS OF NET POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,613,546	\$ 12,052,794
Investments	15,681,020	13,491,775
Accounts receivable, net	386,593	193,311
Prepaid items and deposits	<u>70,535</u>	<u>55,883</u>
Total current assets	<u>23,751,694</u>	<u>25,793,763</u>
NON-CURRENT ASSETS		
Investments	38,685,900	34,736,545
Capital assets, net	<u>11,464,523</u>	<u>11,972,558</u>
Total non-current assets	<u>50,150,423</u>	<u>46,709,103</u>
DEFERRED OUTFLOWS		
Deferred Outflows of Resources		
Pension plans	1,204,238	1,159,189
OPEB	<u>11,114</u>	<u>14,147</u>
Total deferred outflows of resources	<u>1,215,352</u>	<u>1,173,336</u>
TOTAL ASSETS	<u>75,117,469</u>	<u>73,676,202</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	259,877	387,096
Grants payable	3,088,358	7,409,355
Compensated absences	48,184	31,110
Disability claims, reserve, current portion	<u>14,803</u>	<u>14,803</u>
Total current liabilities	<u>3,411,222</u>	<u>7,842,364</u>
NON-CURRENT LIABILITIES		
Grants payable	6,660,000	5,400,000
Long-term disability claims reserve	28,809	40,626
Net pension liability	4,604,254	3,395,623
Net OPEB liability	67,364	87,973
Deposits payable	<u>61,962</u>	<u>58,517</u>
Total non-current liabilities	<u>11,422,389</u>	<u>8,982,739</u>
DEFERRED INFLOWS		
Deferred Inflows of Resources		
Pension plans	<u>370,700</u>	<u>1,643,743</u>
Total deferred inflows of resources	<u>370,700</u>	<u>1,643,743</u>
TOTAL LIABILITIES	<u>15,204,311</u>	<u>18,468,846</u>
<u>NET POSITION</u>		
Net investment in capital assets	11,464,523	11,972,558
Unrestricted	<u>48,448,635</u>	<u>43,234,798</u>
TOTAL NET POSITION	<u>\$ 59,913,158</u>	<u>\$ 55,207,356</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Property taxes	\$ 7,166,583	\$ 6,972,196
Rental income	1,218,339	1,203,940
Contributions	150,000	-
Other income	<u>87,070</u>	<u>125,687</u>
Total revenues	<u>8,621,992</u>	<u>8,301,823</u>
OPERATING EXPENSES		
Grant allocations	3,174,052	3,626,871
General expenses	518,876	560,859
Rental expenses	967,727	941,062
Salaries and benefits	898,326	861,504
Retirement benefits-other	(96,389)	(556,944)
Legal fees	176,873	235,836
Depreciation	188,833	193,276
Other	238,724	208,763
Election fees	<u>-</u>	<u>109,347</u>
Total operating expenses	<u>6,067,022</u>	<u>6,180,574</u>
Income from operations	<u>2,554,970</u>	<u>2,121,249</u>
NONOPERATING INCOME (EXPENSES)		
Investment income	2,273,515	2,245,953
Loss on disposal of capital assets	-	(727)
Investment expenses	<u>(122,683)</u>	<u>(113,967)</u>
Total nonoperating income (loss)	<u>2,150,832</u>	<u>2,131,259</u>
Increase in net position	4,705,802	4,252,508
NET POSITION		
Beginning of year	<u>55,207,356</u>	<u>50,954,848</u>
End of year	<u>\$ 59,913,158</u>	<u>\$ 55,207,356</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from County	\$ 7,161,553	\$ 6,975,239
Cash received from grantor and donors	224,181	79,234
Cash received from rentals and other operating revenues	1,124,722	1,244,087
Cash payments to suppliers for goods and services	(1,594,546)	(2,879,404)
Cash payments to employees for services and benefits	(1,000,016)	(899,033)
Cash payments to grantee	<u>(6,235,049)</u>	<u>(2,471,615)</u>
Net cash provided (used) by operating activities	<u>(319,155)</u>	<u>2,048,508</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	<u>(132,325)</u>	<u>(230,526)</u>
Net cash used by capital and related financing activities	<u>(132,325)</u>	<u>(230,526)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment sales (purchases) - net	<u>(3,987,768)</u>	<u>8,230,077</u>
Net cash (used) provided by investing activities	<u>(3,987,768)</u>	<u>8,230,077</u>
Net increase (decrease) in cash	<u>(4,439,248)</u>	<u>10,048,059</u>
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>12,052,794</u>	<u>2,004,735</u>
END OF YEAR	<u>\$ 7,613,546</u>	<u>\$ 12,052,794</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, 2020 AND 2019

-Continued-

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 2,554,970	\$ 2,121,249
Adjustments to reconciliation of income from operations to net cash provided (used) by operating activities:		
Depreciation	640,360	639,406
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Accounts receivables	(193,282)	(3,263)
Prepaid items and deposits	(14,652)	(10,156)
Deferred outflow-pension	(45,049)	(101,347)
Deferred outflow-OPEB	3,033	7,997
Net pension liabilities	1,208,631	117,830
Net OPEB liabilities	(20,609)	(20,714)
Accounts payable and accrued liabilities	(127,219)	(1,259,511)
Grants payable	(3,060,997)	1,155,256
Deposits payable	3,445	-
Compensated absences	17,074	(8,675)
Long-term disability claims reserve	(11,817)	(11,117)
Deferred inflow - pension	<u>(1,273,043)</u>	<u>(578,447)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (319,155)</u>	<u>\$ 2,048,508</u>

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

DESERT HEALTHCARE DISTRICT

STATEMENTS OF FIDUCIARY NET POSITION

DESERT HEALTHCARE FOUNDATION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,145,289	\$ 945,995
Grants receivable	-	1,000,000
Prepaid expenses	3,000	3,500
Accrued interest and dividends receivable	18,931	17,732
Total current assets	<u>1,167,220</u>	<u>1,967,227</u>
OTHER ASSETS		
Contributions receivable - charitable remainder trusts	187,298	189,239
Investments	5,020,682	5,853,791
Total other assets	<u>5,207,980</u>	<u>6,043,030</u>
TOTAL ASSETS	<u>6,375,200</u>	<u>8,010,257</u>
<u>LIABILITIES</u>		
LIABILITIES		
Current liabilities		
Accounts payable	100,467	70,955
Grants payable - current	2,694,224	3,384,450
Total current liabilities	<u>2,794,691</u>	<u>3,455,405</u>
Long-term liabilities		
Grants payable - long-term	1,600,000	2,260,000
Total long-term liabilities	<u>1,600,000</u>	<u>2,260,000</u>
TOTAL LIABILITIES	<u>4,394,691</u>	<u>5,715,405</u>
NET POSITION	<u>\$ 1,980,509</u>	<u>\$ 2,294,852</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ADDITIONS		
Contributions	\$ 73,222	\$ 30,748
Grants and bequests	264,668	1,266,188
Interest and dividends	184,904	115,058
Investment gains (losses)	41,026	386,648
Change in value - charitable trusts	<u>(1,940)</u>	<u>310</u>
TOTAL SUPPORT AND REVENUE	<u>561,880</u>	<u>1,798,952</u>
DEDUCTIONS		
Grants and services	508,667	1,536,658
Management and general	<u>367,556</u>	<u>246,663</u>
TOTAL EXPENSES	<u>876,223</u>	<u>1,783,321</u>
INCREASE (DECREASE) IN NET POSITION	(314,343)	15,631
NET POSITION, BEGINNING OF YEAR	<u>2,294,852</u>	<u>2,279,221</u>
NET POSITION, END OF YEAR	<u>\$ 1,980,509</u>	<u>\$ 2,294,852</u>

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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, 2020 AND 2019

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, 2020 AND 2019

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, 2020 AND 2019

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 \$58,887,967 as of June 30, 2020, identified as the Facility Replacement Fund. The lease agreement contains provisions in the event the lease terminates prior to May 30, 2021. If the lease terminates for reasons such as default by the lessor to perform obligations

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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

within a sixty day period or the premises are totally destroyed and repairs are not feasible between the dates of June 1, 2019 and May 30, 2021, the District may be obligated to repay Tenet beginning June 1, 2019 the unamortized prepaid rent as defined in the lease agreement which decreases annually through May 2021. However, the District does not expect these conditions to occur during the term of the lease and therefore recorded the full amount of the payments received to income in fiscal year ended June 30, 1997. The lease agreement was amended to allow the District to provide the funding for the cost of preapproved capital improvements that will reduce the amount of the prepaid rent schedule by a ratio of \$3 for each \$1 spent, and in some cases a ratio of \$3.50 for each \$1 spent.

The \$4,387,240 construction cost and credit received from Desert Regional Medical Center for lower electrical costs of the hospital parking lot provided for a \$3 for \$1 reduction amounting to \$14,042,229 to the prepaid lease schedule. An additional \$4,589,200 reduction to the prepaid lease schedule was due to a \$3.50 for \$1 reduction per a 10 year facility lease agreement between the District and Hospital for facility space at the District's medical office building to be occupied by the Hospital.

As of June 30, 2020 the prepaid lease balance is \$2,835,230. This amount will decrease annually by \$3,066,667 per terms of the lease agreement. By May 31, 2021, the remaining prepaid lease balance will be zero.

3. CASH AND INVESTMENTS

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

	June 30, 2020	June 30, 2019
District's Statement of Net Position:		
Cash and cash equivalents	\$ 7,613,546	\$ 12,052,794
Investments	54,366,920	48,228,320
Fiduciary Statement of Net Position:		
Cash and cash equivalents	1,145,289	945,995
Investments	5,020,682	5,853,791
Total Cash and Investments	\$ 68,146,437	\$ 67,080,900

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

3. CASH AND INVESTMENTS - Continued

Cash and Investments consist
of the following:

	June 30, 2020	June 30, 2019
Cash on Hand	\$ 700	\$ 700
Cash in Bank-District	3,091,999	2,049,242
Cash in Bank-Foundation	998,158	810,227
Money Market Funds	4,667,978	10,138,620
Investments	59,387,602	54,082,111
 Total Cash and Investments	 \$ 68,146,437	 \$ 67,080,900

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.

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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
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

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, 2020

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*	\$ 1,581,765	\$ 64,845	\$ 104,496	\$ 238,816	\$ 131,685	\$ 1,041,923
U.S. Government Agencies	14,954,820	5,569,590	7,225,250	2,159,980	-	-
U.S. Government Agencies*	117,910	-	-	-	-	117,910
U.S. Treasury Notes	39,412,100	10,111,430	15,183,725	11,519,850	2,597,095	-
U.S. Treasury Notes*	1,172,774	40,182	257,158	159,345	84,129	631,960
Mutual Funds-Open Ended*	269,060	269,060	-	-	-	-
Domestic Common Stock*	1,879,173	1,879,173	-	-	-	-
Total	<u>\$59,387,602</u>	<u>\$17,934,280</u>	<u>\$22,770,629</u>	<u>\$14,077,991</u>	<u>\$ 2,812,909</u>	<u>\$ 1,791,793</u>

*Held by Foundation

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

3. CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk (Continued)

As of June 30, 2019

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*	\$ 1,410,937	\$ 50,074	\$ 73,371	\$ 70,047	\$ 251,864	\$ 965,581
U.S. Government Agencies	22,160,590	7,486,335	5,519,485	7,066,850	2,087,920	-
U.S. Government Agencies*	867,003	-	105,004	173,290	109,954	478,755
U.S. Treasury Notes	26,067,730	6,005,440	7,064,840	7,868,280	5,129,170	-
U.S. Treasury Notes*	418,965	62,881	101,210	-	52,612	202,262
Mutual Funds-Open Ended*	1,204,392	1,204,392	-	-	-	-
Domestic Common Stock*	1,952,494	1,952,494	-	-	-	-
Total	<u>\$54,082,111</u>	<u>\$16,761,616</u>	<u>\$12,863,910</u>	<u>\$15,178,467</u>	<u>\$ 7,631,520</u>	<u>\$ 1,646,598</u>

*Held by Foundation

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, 2020

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*	\$ 1,581,765	N/A	\$ -	\$ 201,620	\$ 642,662	\$ 737,483	\$ -
U.S. Government Agencies	14,954,820	N/A	-	14,954,820	-	-	-
U.S. Government Agencies*	117,910	N/A	-	117,910	-	-	-
U.S. Treasury Notes	39,412,100	N/A	39,412,100	-	-	-	-
U.S. Treasury Notes*	1,172,774	N/A	1,172,774	-	-	-	-
Mutual Funds-Open Ended*	269,060	N/A	-	-	-	-	269,060
Domestic Common Stock*	1,879,173	N/A	-	-	-	-	1,879,173
Total	<u>\$59,387,602</u>		<u>\$40,584,874</u>	<u>\$15,274,350</u>	<u>\$ 642,662</u>	<u>\$ 737,483</u>	<u>\$ 2,148,233</u>

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

3. CASH AND INVESTMENTS - Continued

Disclosure Relating to Credit Risk (Continued)

As of June 30, 2019

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*	\$ 1,410,937	N/A	\$ -	\$ 242,228	\$ 464,545	\$ 704,164	\$ -
U.S. Government Agencies	22,160,590	N/A	-	22,160,590	-	-	-
U.S. Government Agencies*	867,003	N/A	-	867,003	-	-	-
U.S. Treasury Notes	26,067,730	N/A	26,067,730	-	-	-	-
U.S. Treasury Notes*	418,965	N/A	418,965	-	-	-	-
Mutual Funds-Open Ended*	1,204,392	N/A	-	-	-	-	1,204,392
Domestic Common Stock*	1,952,494	N/A	-	-	-	-	1,952,494
Total	\$54,082,111		\$26,486,695	\$23,269,821	\$464,545	\$ 704,164	\$ 3,156,886

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

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 three investments at June 30, 2020 that represent 5% or more of total District investments (other than U.S. Treasury Notes). These investments are:

- Federal Home Loan Banks: \$4,189,420 with various maturity dates through June 30, 2023, and interest rates of 1.875-3.625%.
- Federal Home Loan Mortgage Corporation: \$3,141,550 with various maturity dates through June 30, 2023, and interest rates of 2.375-2.750%.
- Federal National Mortgage Association: \$7,623,850 with various maturity dates through June 30, 2022, and interest rates of 1.250-2.000%.

There are three investments at June 30, 2019 that represent 5% or more of total District investments (other than U.S. Treasury Notes). These investments are:

- Federal Home Loan Banks: \$6,615,025 with various maturity dates through June 30, 2023, and interest rates of 1.375-4.500%.
- Federal Home Loan Mortgage Corporation: \$5,058,980 with various maturity dates through June 30, 2023, and interest rates of 1.250-2.750%.
- Federal National Mortgage Association: \$10,486,585 with various maturity dates through June 30, 2022, and interest rates of 1.250-2.000%.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

3. CASH AND INVESTMENTS - Continued

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, 2020 and 2019, 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.

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.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

3. CASH AND INVESTMENTS - Continued

Custodial Credit Risk

The District has the following recurring fair value measurements;
 At June 30, 2020 and 2019, the District's cash, cash equivalents, and investments classified by risk category consisted of the following:

As of June 30, 2020

<u>Investments by fair value</u>	<u>Total</u>	<u>Fair Value Measurement Using</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				
Corporate Bonds	\$ 1,581,765	\$ 1,581,765	\$ -	\$ -
U.S. Government Agencies	15,072,730	15,072,730	-	-
U.S. Treasury Notes	40,584,874	40,584,874	-	-
Mutual Funds-Open Ended	269,060	269,060	-	-
Domestic Common Stock	1,879,173	1,879,173	-	-
	<u>\$ 59,387,602</u>	<u>\$ 59,387,602</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2019

<u>Investments by fair value</u>	<u>Total</u>	<u>Fair Value Measurement Using</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				
Corporate Bonds	\$ 1,410,937	\$ 1,410,937	\$ -	\$ -
U.S. Government Agencies	23,027,593	23,027,593	-	-
U.S. Treasury Notes	26,486,695	26,486,695	-	-
Mutual Funds-Open Ended	1,204,392	1,204,392	-	-
Domestic Common Stock	1,952,494	1,952,494	-	-
	<u>\$ 54,082,111</u>	<u>\$ 54,082,111</u>	<u>\$ -</u>	<u>\$ -</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

4. CAPITAL ASSETS

Business-Type Activities

At June 30, 2020 and 2019 the capital assets of the business-type activities consisted of the following:

<u>June 30, 2020</u>	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
Non-depreciable assets:				
Land and CIP	\$ 3,988,650	\$ 58,704	\$ -	\$ 4,047,354
Total non-depreciable assets	<u>3,988,650</u>	<u>58,704</u>	<u>-</u>	<u>4,047,354</u>
Depreciable assets:				
Building and improvements	18,177,558	60,300	(45,486)	18,192,372
Furniture and equipment	182,737	13,321	-	196,058
Total depreciable assets	18,360,295	73,621	(45,486)	18,388,430
Less accumulated depreciation	<u>(10,376,387)</u>	<u>(640,360)</u>	<u>45,486</u>	<u>(10,971,261)</u>
Total depreciable assets, net	<u>7,983,908</u>	<u>(508,035)</u>	<u>-</u>	<u>7,417,169</u>
Total capital assets, net	<u>\$11,972,558</u>	<u>\$ (508,035)</u>	<u>\$ -</u>	<u>\$ 11,464,523</u>

Depreciation expense consists of operating expense depreciation of \$188,833 and rental expense depreciation of \$451,527.

<u>June 30, 2019</u>	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Non-depreciable assets:				
Land	\$ 3,988,650	\$ -	\$ -	\$ 3,988,650
Total non-depreciable assets	<u>3,988,650</u>	<u>-</u>	<u>-</u>	<u>3,988,650</u>
Depreciable assets:				
Building and improvements	17,955,981	222,077	(500)	18,177,558
Furniture and equipment	176,546	8,449	(2,258)	182,737
Total depreciable assets	18,132,527	230,526	(2,758)	18,360,295
Less accumulated depreciation	<u>(9,739,013)</u>	<u>(639,405)</u>	<u>2,031</u>	<u>(10,376,387)</u>
Total depreciable assets, net	<u>8,393,514</u>	<u>(408,879)</u>	<u>(727)</u>	<u>7,983,908</u>
Total capital assets, net	<u>\$ 12,382,164</u>	<u>\$ (408,879)</u>	<u>\$ (727)</u>	<u>\$ 11,972,558</u>

Depreciation expense consists of operating expense depreciation of \$193,276 and rental expense depreciation of \$446,129.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

5. RESTRICTED NET POSITION

The District had \$0 of restricted net position at June 30, 2020 and 2019.

6. SPLIT INTEREST AGREEMENTS - FOUNDATION

At June 30, 2020 and 2019, the split interest agreements of the fiduciary fund consisted of the following:

	<u>2020</u>	<u>2019</u>
Contribution receivable – charitable remainder trusts	<u>\$ 187,298</u>	<u>\$ 189,239</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.

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, 2020 and 2019 was \$61,276 and \$63,217, 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, 2020 and 2019, the total grant awards payable were \$9,748,358 and \$12,809,355, respectively. Total grants expense for the years ended June 30, 2020 and 2019 amounted to \$3,174,052 and \$3,626,871, respectively.

The Foundation has granted awards to various healthcare providers that provide needed healthcare services. At June 30, 2020 and 2019, the total grant awards payable were \$4,294,224 and \$5,644,450, respectively. Total grants and services expense for the years ended June 30, 2020 and 2019 amounted to \$508,667 and \$1,536,658, respectively.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 and 2019, the long-term disability claims reserves were as follows:

	<u>Balance at</u> <u>July 1, 2019</u>	<u>Claims</u> <u>Paid</u>	<u>Changes in</u> <u>Estimates</u>	<u>Balance at</u> <u>June 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
Claims payable	\$ 55,429	\$ (14,803)	\$ 2,986	\$ 43,612	\$ 14,803

	<u>Balance at</u> <u>July 1, 2018</u>	<u>Claims</u> <u>Paid</u>	<u>Changes in</u> <u>Estimates</u>	<u>Balance at</u> <u>June 30, 2019</u>	<u>Due Within</u> <u>One Year</u>
Claims payable	\$ 66,546	\$ (14,803)	\$ 3,686	\$ 55,429	\$ 14,803

9. POSTEMPLOYEMENT (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

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

9. POSTEMPLOYEMENT (HEALTH INSURANCE) BENEFITS - Continued

B. Total OPEB Liability

The District's total OPEB liability of \$67,364 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the June 30, 2019 actuarial valuation 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.
<i>Cost for retiree coverage</i>	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, 2019	<u>\$ 87,973</u>
<u>Changes for the fiscal year</u>	
Service cost	-
Interest	2,957
Changes of benefit terms	-
Differences between expected and actual experience	(3,680)
Changes in assumptions or other inputs	435
Benefit payments	<u>(20,321)</u>
Net changes	<u>67,364</u>
Balance at June 30, 2020	<u>\$ 67,364</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

9. POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS – Continued

C. Changes in the Total OPEB Liability (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	Discount Rate <u>1% Lower</u>	Valuation <u>Discount Rate</u>	Discount Rate <u>1% Higher</u>
Net OPEB liability	\$68,865	\$67,364	\$65,941

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following present the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rate:

	Trend <u>1% Lower</u>	Valuation <u>Trend</u>	Discount Rate <u>1% Higher</u>
Net OPEB liability	\$65,934	\$67,364	\$68,843

D. OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

There were no amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in OPEB expenses in the future.

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.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Base rent	\$ 879,153	\$ 863,595
Common area maintenance	<u>339,186</u>	<u>340,345</u>
	<u>\$1,218,339</u>	<u>\$1,203,940</u>

The five fiscal year minimum rental schedule follows:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Base rent	\$ 914,262	\$ 929,472	\$ 755,093	\$ 392,442	\$ 159,861
Common area maintenance	<u>343,569</u>	<u>339,204</u>	<u>272,504</u>	<u>139,299</u>	<u>55,665</u>
	<u>\$ 1,257,831</u>	<u>\$ 1,268,676</u>	<u>\$ 1,027,597</u>	<u>\$ 531,741</u>	<u>\$ 215,525</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.

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 during the fiscal year 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 fiscal years ended June 30, 2020 and 2019 were \$64,172 and \$47,285, respectively.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020, the Plan’s independent actuary determined that the actuarial value of the Plan’s net pension liability was \$4,604,254 at June 30, 2020 and \$3,395,623 at June 30, 2019. In the report it was recommended that an actuarially determined contribution of \$366,275 as of June 30, 2020 and \$288,378 as of June 30, 2019, should be made. The District’s board of directors elected not to fund the Plan during 2020. The plan was funded in the amount of \$0 during 2020 and 2019.

Distributions

Although the pension liability is determined by calculating the present value of future annuity payments, it is the practice of the District to disburse 100% of the participant’s funds at the time the participant leaves employment of Desert Hospital. The disbursements are in the form of either a roll over to an IRA or a direct disbursement to the participant.

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
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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

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, 2020 and 2019, the following employees were covered by the benefit terms:

	<u>Miscellaneous</u>	
	<u>2020</u>	<u>2019</u>
Inactive plan members if beneficiaries currently receiving benefits	8	8
Inactive plan members entitled to but not yet receiving benefits	61	61
Active plan members	114	114
Total Employees Covered	<u>183</u>	<u>183</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

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

Net Pension Liability

The District’s net pension 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 liability is shown below.

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

Inflation	2.75%
Discount rate	3.77% net of pension plan investment expense, including inflation.
Measurement date	June 30, 2020, based on valuation date of June 30, 2019.
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-2018
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	100% retirement 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.
Other assumptions	See actuarial assumptions provided in the June 30, 2020 funding valuation for other relevant assumptions.

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

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

Net Pension Liability (Continued)

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 3.77 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 3.77 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.82 percent is applied to all plans in the Plan. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the Districts' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 3.77 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 3.92 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 2019-20 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.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

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

Net Pension Liability (Continued)

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	36.0%	2.50%
Domestic equities	45.0	5.50
International equities	15.0	6.50
International Fixed Income Securities	2.0	2.50
Cash	2.0	0.00

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

Changes in the Net Pension Liability

The changes in the Net Pension 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, 2019	\$ 8,309,530	\$ 4,913,906	\$ 3,395,624
Changes in Recognized for the Measurement Period:			
Employer Contributions	-	-	-
Interest on the Total Pension Liability	374,170		374,170
Differences between Expected and Actual Experience	-	-	-
Changes in Assumptions	912,601	-	912,601
Net Investment Income **	-	109,665	(109,665)
Benefit Payments, including Refunds of Employee Contributions	(208,084)	(208,084)	-
Administrative Expenses	-	(31,524)	31,524
Net Changes during 2019-20	1,078,687	(129,943)	1,208,630
Balance, June 30, 2020 *	\$ 9,388,217	\$ 4,783,963	\$ 4,604,254

* 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 Liability to Changes in the Discount Rate

The Following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 3.77 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (2.77 percent) or 1 percentage-point higher (4.77 percent) than the current rate:

	<u>1% Decrease (2.77%)</u>	<u>Current Discount Rate (3.77%)</u>	<u>1% Increase (4.77%)</u>
Net pension liability	\$ 5,988,086	\$ 4,604,254	\$ 3,471,841

Plan Fiduciary Net Position

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

Changes in the Net Pension Liability (Continued)

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

For the fiscal year ended June 30, 2020, the District recognized pension expense of (\$109,461). At June 30, 2020, 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	\$ -	\$ (267,370)
Net differences between projected and actual		
Earnings on pension plan investments	260,292	(103,330)
Changes in assumptions	943,946	-
Total	<u>\$ 1,204,238</u>	<u>\$ (370,700)</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>
2021	\$ 357,812
2022	355,644
2023	70,105
2024	49,977
Total	<u>\$ 833,538</u>

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 \$200,000 to the Foundation, to help fulfill their purpose. The District also provided the Foundation with office space and personnel of \$305,676.

16. UNCERTAINTIES

As a result of the COVID-19 coronavirus pandemic, economic uncertainties have arisen which could have an impact on the operations of the District and Foundation. The related financial impact and duration cannot be reasonably estimated at this time.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

17. SUBSEQUENT EVENTS

The District and Foundation evaluated all potential subsequent events as of October 13, 2020 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2020 or as of October 13, 2020 that require disclosure to the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

DESERT HEALTHCARE DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2020

Prepared for the Desert Healthcare District, a Single-Employer Defined Benefit Pension Plan as of June 30, 2020

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

	2020	2019	2018	2017	2016	2015
Measurement Period	2018-2019	2018-2019	2016-2017	2016-2017	2014-2015	2013-2014
Total Pension Liability						
Interest on total pension liability	\$ 374,170	\$ 385,951	\$ 399,298	\$ 321,990	\$ 397,980	\$ 418,035
Differences between expected and actual experience	-	(802,110)	-	(437,093)	(493,455)	(537,276)
Changes in assumptions	912,601	769,854	315,705	(2,852,163)	1,944,607	-
Benefit payments, including refunds of employee contributions	(208,084)	(511,792)	(466,670)	(382,380)	(459,397)	(304,566)
Net change in total pension liability	1,078,687	(158,097)	248,333	(3,349,646)	1,389,735	(423,807)
Total pension liability - beginning	8,309,530	8,467,627	8,219,294	11,568,940	10,179,205	10,603,012
Total pension liability - ending (a)	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	109,665	268,701	347,969	426,828	(6,638)	71,101
Benefit payments	(208,084)	(511,792)	(466,670)	(382,380)	(459,397)	(304,566)
Administrative expenses	(31,524)	(32,836)	(35,638)	(24,513)	(14,983)	(17,886)
Net change in plan fiduciary net position	(129,943)	(275,927)	(154,339)	3,419,935	(481,018)	(251,351)
Plan fiduciary net position - beginning	4,913,907	5,189,834	5,344,173	1,924,238	2,405,256	2,656,607
Plan fiduciary net position - ending (b)	4,783,963	4,913,907	5,189,834	5,344,173	1,924,238	2,405,256
Net pension liability - ending (a) - (b)	\$ 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	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
Net pension liability as a percentage of covered - employee payroll	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%.

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

DESERT HEALTHCARE DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2020

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

Measured Period	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Total OPEB Liability			
Service Cost	\$ -	\$ -	\$ -
Changes in assumptions	(3,245)	(908)	-
Interest on the Total Pension Liability	2,957	3,684	4,057
Benefit Payments	<u>(20,321)</u>	<u>(23,490)</u>	<u>(22,587)</u>
Net Change in total Pension Liability	<u>(20,609)</u>	<u>(20,714)</u>	<u>(18,530)</u>
Total OPEB Liability - Beginning	<u>87,973</u>	<u>108,687</u>	<u>127,217</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 67,364</u></u>	<u><u>\$ 87,973</u></u>	<u><u>\$ 108,687</u></u>
Plan Fiduciary Net Position			
Contribution from the Employer	\$ 20,321	\$ 23,490	\$ 22,587
Net investment income	-	-	-
Benefit Payments	(20,321)	(23,490)	(22,587)
Administrative Expenses	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Net OPEB Liability - Ending (a) - (b)	<u><u>\$ 67,364</u></u>	<u><u>87,973</u></u>	<u><u>108,687</u></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>
Covered - Employee Payroll	<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>

Notes to Schedule:

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 three years are shown.