

DESERT HEALTHCARE DISTRICT
PALM SPRINGS, CALIFORNIA
INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2026

DESERT HEALTHCARE DISTRICT

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA
WILSON LAM, CPA

CALIFORNIA- SOUTHERN

400 CORPORATE POINTE, SUITE 250
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

CALIFORNIA- CENTRAL COAST

2400 PROFESSIONAL PARKWAY, SUITE 205
SANTA MARIA, CA 93455
TEL: 805.925.2579
FAX: 805.925.2147
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

Opinions

We have audited the financial statements of the business type activities and the fiduciary activities of the Desert Healthcare District (District) as of and for the fiscal year ended June 30, 2026, 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 accompanying financial statements referred to above presently fairly, in all material respects, the business type activities and the fiduciary activities of the District as of June 30, 2026, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 the District, 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.

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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios and the Schedule of Changes in Net OPEB Liability and Related Ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 6, 2026, on our consideration of the 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 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 the District'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 the Plan's internal control over financial reporting and compliance.

Report on Comparative Information

We audited the District's financial statements as of and for the fiscal year ended June 30, 2025 and expressed an unmodified opinion on those audited financial statements in our report dated October 6, 2025. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2025, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Moss, Levy & Hartzheim, LLP
Culver City, California
October 6, 2026

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2026 AND 2025

OVERVIEW OF THE FINANCIAL STATEMENTS

The Desert Healthcare District's (District) financial statements reflect the activities of two funds. The first represents the District, and the second represents the Desert Healthcare Foundation (Foundation). The financial statements include the Statement of Net Position (District), Statement of Revenues, Expenses, and Changes in Net Position (District), Statement of Cash Flows (District), Statement of Fiduciary Net Position (Foundation) and Statement of Changes in Fiduciary Net Position (Foundation). 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 (District) provides information regarding the financial position of the District, including its assets, investments, capital assets, liabilities, and deferred inflows of resources.
- The Statement of Revenues, Expenses, and Changes in Net Position (District) provides information regarding the revenues received by the District, and the expenses incurred in carrying out the District's programs.
- The Statement of Cash Flows (District) 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.
- The Statement of Fiduciary Net Position (Foundation) provides information regarding the financial position of the Foundation, including its assets and liabilities.
- The Statement of Changes in Fiduciary Net Position (Foundation) provides information regarding the revenues received by the Foundation, and the expenses incurred in carrying out the Foundation's programs in support of the District.

The District and Foundation'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 and Foundation are included on the respective Statement of Net Positions. The financial statements of the Foundation are audited and presented separately, providing greater detail than what is included in this audit.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2026 AND 2025

FINANCIAL SUMMARY

	6/30/2026	6/30/2025	Change
CURRENT ASSETS			
Cash and cash equivalents, investments, accounts receivable - net, prepaid items and deposits	\$ 12,012,561	\$ 31,119,657	\$ (19,107,096)
NON-CURRENT ASSETS			
Investments, lease receivables, and net pension asset	79,485,578	53,839,198	25,646,380
Capital assets, net	9,697,423	10,192,552	(495,129)
DEFERRED OUTFLOWS OF RESOURCES			
Pension plans	-	179,155	(179,155)
TOTAL ASSETS AND DEFERRED OUTFLOWS	101,195,562	95,330,562	5,865,000
CURRENT LIABILITIES			
Accounts payable and accrued liabilities, grants payable, compensated absences, lease payable - current portion, SBITA payable - current portion	4,013,070	4,919,390	(906,320)
NON-CURRENT LIABILITIES			
Grants payable, lease payable, SBITA payable, deposits payable	3,885,835	1,007,606	2,878,229
DEFERRED INFLOWS OF RESOURCES			
Pension plans and leases	4,234,020	4,500,984	(266,964)
TOTAL LIABILITIES AND DEFERRED INFLOWS	12,132,925	10,427,980	1,704,945
NET POSITION			
Net investment in capital assets	9,557,756	10,025,915	(468,159)
Restricted for pension	2,607,472	2,112,552	494,920
Unrestricted	76,897,409	72,764,115	4,133,294
Total Net Position	89,062,637	84,902,582	4,160,055
OPERATING REVENUES			
Other Income	\$ 2,642,799	\$ 105,181	\$ 2,537,618
Total Operating Revenues	2,642,799	105,181	2,537,618
OPERATING EXPENSES			
Grant allocations	8,701,862	4,322,446	4,379,416
General expenses	1,222,691	754,364	468,327
Salaries and benefits	2,197,992	1,847,351	350,641
Legal fees	156,691	225,962	(69,271)
Depreciation and amortization	690,061	695,604	(5,543)
Other	681,940	476,547	205,393
Election Fees	-	689,689	(689,689)
Total Operating Expenses	13,651,237	9,011,963	4,639,274
Operating Income (Loss)	(11,008,438)	(8,906,782)	(2,101,656)
NON-CAPITAL SUBSIDIES			
Intergovernmental Revenue (Property Taxes)	12,250,443	11,842,682	407,761
Total Non-Capital Subsidies	12,250,443	11,842,682	407,761
Operating Income and Non-Capital Subsidies	1,242,005	2,935,900	(1,693,895)

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2026 AND 2025

	6/30/2026	6/30/2025	Change
NON-OPERATING INCOME (EXPENSES)			
Investment Income	2,156,575	3,665,221	(1,508,646)
Gain (loss) on lease terminations	(4,566)	(48,120)	43,554
Loss of disposal of capital assets	(3,973)	-	(3,973)
Rental income, net of expenses	739,895	883,978	(144,083)
Retirement plan/benefits change	132,911	259,518	(126,607)
Investment expenses	(102,792)	(71,868)	(30,924)
Total Non-Operating Expenses	2,918,050	4,688,729	(1,770,679)
Changes in Net Position	4,160,055	7,624,629	(3,464,574)
NET POSITION			
Beginning of fiscal year	84,902,582	77,320,265	\$ 7,582,317
Change of net position	4,160,055	7,582,317	\$ (3,422,262)
End of Fiscal Year	\$ 89,062,637	\$ 84,902,582	\$ 4,160,055

DETAILED ANALYSES

Current Assets:

Cash and cash equivalents decreased \$7,013,219 from the prior fiscal year ending June 30, 2025, as cash which is not needed for immediate operational needs is transferred to the investment accounts for future use. The decrease of \$12,015,445 in current investments was due to the reinvestment of matured bonds. Accounts receivable increased \$26,878 primarily due to the expense allocation from the Foundation to the District. The value of the payable is based on labor allocations for the use of the District staff in Foundation work. This payable is typically reduced with quarterly transfers from the Foundation to District. In this case, the final quarterly transfer didn't occur prior to the end of the fiscal year. Prepaid items and deposits decreased \$105,310 from the prior fiscal year primarily due to the timing of the insurance premium payment. The insurance premium is typically paid in full and amortized over the fiscal year. For the fiscal year ending June 30, 2026, the insurance premium had been pre-paid in June of 2025. For the fiscal year ending June 30, 2027, the premium was not paid until July of 2026.

Non-Current Assets:

Non-current investments increased \$25,534,463 as maturing investments were re-invested into longer term bonds and operating cash was invested for future use. Lease receivables decreased by \$383,003 primarily due to the termination of existing leases. In this case, there were a couple of the leases which were re-negotiated at the time of renewal. The majority of this decrease related to the termination of the Park Imperial Land Lease, referenced in Note 8 of the financial statements. The land was sold, which resulted in the proceeds of the sale being recognized as revenue in the fiscal year ended June 30, 2026. The net pension asset increased \$494,920 due to the performance of the investment accounts where the funds are held and updates to the actuarial value of the pension obligations.

Net capital assets decreased by \$495,129 from the prior fiscal year which is a combination of additions, disposals, and recognition of depreciation. Additions and disposals are explained in more detail in the Significant Capital Asset and Long-Term Financing Activity section.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2026 AND 2025

Deferred Outflows of Resources:

The deferred outflow of resources related to the pension plans decreased \$179,155 from the fiscal year ended June 30, 2025. As referenced in note 14 of the financial statements, the District has approved to terminate the Desert Hospital Retirement Protection Plan effective June 30, 2026, and will distribute the funds during the 2026-2027 fiscal year.

Current Liabilities:

Accounts payable and accrued liabilities decreased \$22,058 from the fiscal year ended June 30, 2025. This decrease is primarily related to the timing of payments for payables. Current grant payables decreased \$870,341 from the fiscal year prior due to payments made on the grant contracts. This value will vary as new grants are awarded and will reflect the value of the payments to be made during the next fiscal year. Compensated absences decreased \$14,763 which is a result of additional liabilities due to the increased tenure of staff and offset by a reduction in liability due to the departure of a long-term staff member. The current portion of the lease payable increased by \$327, which is due to a smaller portion of the payments being recognized as interest as the lease progresses. The current portion of the Subscription Based Information Technology Arrangement (SBITA) payable increased by \$515 as the annual payment amount increased per the terms of the contract.

Non-Current Liabilities:

Non-current grant liabilities increased by \$2,907,438 from the prior fiscal year as the value and duration of awarded grants increased from prior years. The non-current portion of the grant payable reflects the value of payments which will be made in a time period greater than one year. The non-current portion of the lease payable decreased by \$22,154, along with a \$5,658 decrease in the SBITA payable, which respectively reflects the value of the payable which will be made within the next fiscal year. Deposits payable decreased by \$1,397, which reflects a combination of the deposit value changes for two of the new leases at the Las Palmas Medical Plaza.

Deferred Inflows of Resources:

The deferred inflow of resources related to the pension plans increased by \$182,854. This increase is based on the annual actuarial valuation report for the Desert Hospital Retirement Protection Plan. The deferred inflow of resources related to leases decreased by \$449,818. This decrease was due to a combination of revenue recognition as well as the effect of the terminated leases during the fiscal year.

Net Position:

The decrease of \$468,159 in the net investment in capital assets will be included in more detail in the Significant Capital Asset and Long-Term Financing Activity section. The increase of \$494,920 in restricted funds for pension was based on the annual actuarial valuation report for the Desert Hospital Retirement Protection Plan. The increase of \$4,133,294 in unrestricted is a combination of all of the revenues and expenses for fiscal year ended June 30, 2026.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2026 AND 2025

Operating Revenues:

Other income increased \$2,537,618 primarily due to the sale of the land under the Park Imperial Land Lease noted in the Non-Current Assets section.

Operating Expenses:

Grant allocations increased \$4,379,416 from the fiscal year ended June 30, 2025. This is a result of increased awards approved by the Board of Directors (Board). Grant applications have increased in quantity and value after the voters approved Measure AA in November 2024. This Measure approved the execution of a Lease Purchase Agreement for the Desert Regional Medical Center, which is owned by the District. This Lease Purchase Agreement will provide approximately \$650,000,000 over the 30-year lease beginning in 2027. General expenses have increased \$468,327. The primary driver of this increase has been in the professional services category. During the fiscal year ended June 30, 2026, the District contracted with several consultants to support the development and implementation of the new strategic plan, which was adopted by the Board in May of 2026. There were also additional expenses related to the third annual Healthy Desert, Healthy You summit, an increase in the mobile medical unit deployment expenses, and pension audit expenses related to the termination of the Desert Hospital Retirement Protection Plan.

Salaries and benefits increased by \$350,641 due to the addition of two new employees, increased benefit costs, and a one-time severance payment related to the termination of the District's Chief Executive Officer.

Legal fees decreased \$69,271 from the prior fiscal year ending June 30, 2025, as the prior fiscal year included additional legal fees related to the negotiation of the Lease Purchase Agreement for Desert Regional Medical Center which did not apply to the fiscal year ending June 30, 2026.

Depreciation and amortization decreased by \$5,543 from the prior fiscal year. Depreciation values will vary as assets become fully depreciated and new assets are added.

Other expenses increased \$205,393 from the prior fiscal year. While several included expense categories saw minor increases as a result of increased staff, other expenses such as insurance expense, travel expense, computer services expense, and supplies expense also saw related increases. One of the primary drivers of this increase was related to an increase in sponsorship expenses, which increased \$190,000 from the fiscal year prior due to an increase in awarded sponsorships to local non-profit organizations.

There was a decrease in election fees of \$689,689 from the prior fiscal year and no election was held for District positions in 2025.

Non-Capital Subsidies

Property tax revenue increased \$407,761 from the fiscal year ended June 30, 2025. This increase is a combination of increases related to the secured property taxes assessed to properties in the Coachella Valley as well as an increase in the apportionment of funds from the Redevelopment Property Tax Trust Fund.

Non-Operating Income (Expenses):

Investment income decreased by \$1,508,646 as a result of market changes. This value was primarily due to unrealized losses in the value of the investments which were offset by increased interest income.

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2026 AND 2025

The loss on lease terminations decreased by \$43,554 as terminations during the fiscal year ended on June 30, 2026, were for leases which had shorter remaining durations at the time of termination.

The loss on disposal of capital assets increased by \$3,973 as there were no losses in the fiscal year ended on June 30, 2025. This loss was related to the disposal of a 5G data system on the mobile medical units. Due to limitations on cell coverage at the event sites, a replacement system utilizing the Starlink internet plan provided greater coverage during events.

Rental income, net of expenses decreased by \$144,083 due to an increase in rental expenses during the fiscal year. These expenses were primarily in the interior expense, interior plumbing expense, and deferred maintenance expense categories. These repairs made to the Las Palmas Medical Plaza included addressing aging sewer pipes, replacing electrical conduit in the parking lot, and repairing water damage due to age of several planters across the property.

The retirement plan/benefits change decreased by \$126,607 related to the annual actuarial valuation report updates for the Desert Hospital Retirement Protection Plan.

Investment expenses increased by \$30,924 as the value of the investment accounts increased due to market performance.

Net Position:

The ending net position increased by \$4,160,055 from the prior fiscal year primarily due to the increased revenue from the sale of the Park Imperial Land Lease and the investment income over the course of the fiscal year.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

Significant Capital Assets:

During the course of the 2025-2026 fiscal year, there were a few categories of capital assets which had additions and/or disposals. Tenant improvements, which are reimbursement allowances provided to tenants of the Las Palmas Medical Plaza, allow tenants to make approved real improvements to their leased space. Once an approved improvement is completed, the tenant may submit proof of payment to the District and receive a specified reimbursement. This value is based on the square footage of the leased space and duration of the lease. A tenant improvement is depreciated over the course of the lease. If a tenant continues their lease of the space, the fully depreciated improvement remains on the District books until the tenant no longer leases the space, or if a new improvement requires the disposal of the improvement. During the course of the fiscal year, there were \$76,930 in additions, and \$106,620 in disposals.

Building improvements are improvements made to the Las Palmas Medical Plaza building. During the 2025-2026 fiscal year, there were \$82,200 in improvements made. The roofs of all six buildings at the medical plaza were resealed and recoated. There were also \$46,108 in disposals related to previous improvements which were removed in the course of a tenant improvement project.

Building equipment in the value of \$35,831 was added to capital assets which involved the replacement of several aging air conditioning units at the Las Palmas Medical Plaza.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2026 AND 2025

Long-Term Financing Activity:

The District has no outstanding debt.

CURRENTLY KNOW FACTS, DECISIONS, OR CONDITIONS

The Desert Healthcare District owns Desert Regional Medical Center, which is currently under lease with Tenet Health System Desert, Inc. through May 2027.

The District has established a reserve fund of approximately \$79,800,000 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.

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.

A recently executed 30-year Lease Purchase Agreement will extend the current Hospital lease from 2027 to 2057 and include a transfer of the Hospital to Desert Regional Medical Center, Inc., a wholly owned subsidiary of Tenet Health Systems. The Lease Purchase Agreement was approved on the November 2024 ballot by a vote of District residents. The District will receive approximately \$650,000,000 over 30 years. The seismic retrofit needs of the hospital will be assumed by Desert Regional Medical Center, Inc. and the Termination Assets requirement will be eliminated. Additionally, the restrictions on the \$79,800,000 reserve fund will be eliminated.

The budget for the 2026-2027 fiscal year includes the initial \$100,000,000 payment. The budget also includes an increase in the grant budget to \$10,000,000 for the year ending June 30, 2027. Staff positions have been increased in anticipation of the implementation of the new strategic plan. Expenses to acquire a new District office have also been budgeted to account for the increased staff positions.

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

STATEMENT OF NET POSITION

JUNE 30, 2026

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2025

	<u>2026</u>	<u>2025</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,203,986	\$ 12,217,205
Investments	6,456,415	18,471,860
Accounts receivable - net	262,546	235,668
Prepaid items and deposits	89,614	194,924
Total current assets	<u>12,012,561</u>	<u>31,119,657</u>
NON-CURRENT ASSETS		
Investments	72,937,477	47,403,014
Lease receivables	3,940,629	4,323,632
Capital assets, net	9,697,423	10,192,552
Net pension asset	2,607,472	2,112,552
Total non-current assets	<u>89,183,001</u>	<u>64,031,750</u>
DEFERRED OUTFLOWS		
Deferred Outflows of Resources:		
Pension plans	-	179,155
Total deferred outflows of resources	<u>-</u>	<u>179,155</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>101,195,562</u>	<u>95,330,562</u>
CURRENT LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	332,899	354,957
Grants payable	3,546,914	4,417,255
Compensated absences	105,445	120,208
Lease payable, current portion	22,154	21,827
SBITA payable, current portion	5,658	5,143
Total current liabilities	<u>4,013,070</u>	<u>4,919,390</u>
NON-CURRENT LIABILITIES		
Grants payable	3,721,645	814,207
Lease payable	111,855	134,009
SBITA payable	-	5,658
Deposits payable	52,335	53,732
Total non-current liabilities	<u>3,885,835</u>	<u>1,007,606</u>
DEFERRED INFLOWS		
Deferred Inflows of Resources:		
Pension plans	522,575	339,721
Leases	3,711,445	4,161,263
Total deferred inflows of resources	<u>4,234,020</u>	<u>4,500,984</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>12,132,925</u>	<u>10,427,980</u>
NET POSITION		
Net investment in capital assets	9,557,756	10,025,915
Restricted for pension	2,607,472	2,112,552
Unrestricted	76,897,409	72,764,115
TOTAL NET POSITION	<u>\$ 89,062,637</u>	<u>\$ 84,902,582</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2026

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	<u>2026</u>	<u>2025</u>
OPERATING REVENUES		
Other income	\$ 2,642,799	\$ 105,181
Total revenues	<u>2,642,799</u>	<u>105,181</u>
OPERATING EXPENSES		
Grant allocations	8,701,862	4,322,446
General expenses	1,222,691	754,364
Salaries and benefits	2,197,992	1,847,351
Legal fees	156,691	225,962
Depreciation and amortization	690,061	695,604
Other	681,940	476,547
Election fees	<u>-</u>	<u>689,689</u>
Total expenditures	<u>13,651,237</u>	<u>9,011,963</u>
Operating income (loss)	<u>(11,008,438)</u>	<u>(8,906,782)</u>
NONCAPITAL SUBSIDIES		
Intergovernmental revenue (property taxes)	<u>12,250,443</u>	<u>11,842,682</u>
Total noncapital subsidies	<u>12,250,443</u>	<u>11,842,682</u>
Operating income and noncapital subsidies	<u>1,242,005</u>	<u>2,935,900</u>
NONOPERATING INCOME (EXPENSES)		
Investment income	2,156,575	3,665,221
Gain (loss) on lease terminations	(4,566)	(48,120)
Loss on disposal of capital assets	(3,973)	-
Rental income, net of expenses	739,895	883,978
Retirement plan/benefits change	132,911	259,518
Investment expenses	<u>(102,792)</u>	<u>(71,868)</u>
Total nonoperating income	<u>2,918,050</u>	<u>4,688,729</u>
Change in net position	<u>4,160,055</u>	<u>7,624,629</u>
NET POSITION		
Beginning of fiscal year	84,902,582	77,320,265
Prior period adjustments	<u>-</u>	<u>(42,312)</u>
Net position at beginning of fiscal year, restated	<u>84,902,582</u>	<u>77,277,953</u>
End of fiscal year	<u>\$ 89,062,637</u>	<u>\$ 84,902,582</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2026

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	<u>2026</u>	<u>2025</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash payments to suppliers for goods and services	\$ (1,978,093)	\$ (2,200,924)
Cash payments to employees for services and benefits	(2,214,129)	(1,805,176)
Cash payments to grantees	(6,664,765)	(5,289,504)
Other operating revenues	2,584,333	88,559
Net cash used by operating activities	<u>(8,272,654)</u>	<u>(9,207,045)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from County	<u>12,282,031</u>	<u>11,806,958</u>
Net cash provided by noncapital financing activities	<u>12,282,031</u>	<u>11,806,958</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(198,905)	(122,953)
Principal payments SBITAs	(5,143)	(5,250)
Principal payments leases	<u>(21,827)</u>	<u>(21,504)</u>
Net cash provided (used) by capital and related financing activities	<u>(225,875)</u>	<u>(149,707)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	2,600,814	1,997,248
Rental income, net	688,754	801,941
Net investment sales (purchases)	<u>(14,086,289)</u>	<u>1,701,711</u>
Net cash provided (used) by investing activities	<u>(10,796,721)</u>	<u>4,500,900</u>
Net increase (decrease) in cash	(7,013,219)	6,951,106
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	<u>12,217,205</u>	<u>5,266,099</u>
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	<u><u>\$ 5,203,986</u></u>	<u><u>\$ 12,217,205</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	<u><u>\$ 5,203,986</u></u>	<u><u>\$ 12,217,205</u></u>

(Continued)

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF CASH FLOWS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2026

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2025

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2026</u>	<u>2025</u>
Operating income	\$ (11,008,438)	\$ (8,906,782)
Adjustments to reconciliation of income from operations to net cash provided by operating activities:		
Depreciation and amortization	690,061	695,604
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable	(58,466)	(16,622)
Prepaid items and deposits	105,310	(157,640)
Accounts payable and accrued liabilities	(22,058)	119,166
Grants payable	2,037,097	(967,058)
Deposits payable	(1,397)	(3,761)
Compensated absences	<u>(14,763)</u>	<u>30,048</u>
Net cash provided by operating activities	<u>\$ (8,272,654)</u>	<u>\$ (9,207,045)</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
DESERT HEALTHCARE FOUNDATION
JUNE 30, 2026
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2025

	<u>Custodial Fund</u>	
	<u>2026</u>	<u>2025</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 592,000	\$ 708,843
Grants receivable	34,456	758,610
Prepaid items	6,943	8,110
Accrued interest and dividend receivable	9,009	8,579
Total current assets	<u>642,408</u>	<u>1,484,142</u>
OTHER ASSETS		
Contributions receivable - charitable remainder trusts	281,713	258,957
Investments	<u>4,718,041</u>	<u>4,312,700</u>
Total other assets	<u>4,999,754</u>	<u>4,571,657</u>
TOTAL ASSETS	<u>5,642,162</u>	<u>6,055,799</u>
LIABILITIES		
Current liabilities:		
Accounts payable	468,773	48,335
Grants payable - current portion	<u>324,138</u>	<u>533,221</u>
Total current liabilities	<u>792,911</u>	<u>581,556</u>
Long-term liabilities:		
Grants payable - long-term	<u>-</u>	<u>324,138</u>
Total long-term liabilities	<u>-</u>	<u>324,138</u>
Total liabilities	<u>792,911</u>	<u>905,694</u>
NET POSITION	<u>\$ 4,849,251</u>	<u>\$ 5,150,105</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 FISCAL YEAR ENDED JUNE 30, 2026

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	Custodial Fund	
	2026	2025
ADDITIONS		
Contributions	\$ 70,984	\$ 79,329
Grants	-	852,369
Bequests	55,676	70,679
Interest and dividends	114,933	109,255
Investment gains and losses	384,448	358,051
Change in value - charitable trusts	22,756	63,902
Miscellaneous income	845	826
Total support and revenue	649,642	1,534,411
DEDUCTIONS		
Grants and services	570,321	1,207,080
Management and general	380,175	284,533
Total expenses	950,496	1,491,613
INCREASE (DECREASE) IN NET POSITION	(300,854)	42,798
NET POSITION, BEGINNING OF FISCAL YEAR	5,150,105	5,107,307
NET POSITION, END OF FISCAL YEAR	\$ 4,849,251	\$ 5,150,105

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

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 District's 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.

As required by U.S. 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:

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity — Continued

- 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 the District.

Basis of Accounting and Measurement Focus

Business-Type Activities

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

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 Position. The Statement of Revenues, Expenses, and Changes in Net Position presents changes in net position for the fiscal 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 Position. Their reported fund equity presents total net position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. 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 Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The District's Fiduciary fund includes a Custodial Fund, which account for resources that are being held for the benefit of the District. The Fiduciary fund is accounted for using the accrual basis of accounting.

The District reports the following fiduciary fund:

Desert Healthcare Foundation (Foundation)

The Foundation is a nonprofit 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 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 these financial statements as a Custodial 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.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District's policy is to apply restricted net position 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.

Leases Receivable/Payable

GASB issued Statement No. 87 "Leases" to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease asset and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement a lessee is required to recognize a lease liability and an intangible right-of-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. See Notes 4, 8, and 9 for additional information on right of use assets, lease receivables, and lease payable, respectively.

Prepaid Items and Deposits

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

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 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

Right of Use Assets

The District has recorded right of use lease assets as a result of implementing GASB Statement No.87. The right of use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right of use assets are amortized on a straight-line basis over the life of the related lease. See Note 4 for additional information.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subscription-Based Information Technology Arrangements Assets

The District has recorded right of use subscription-based information technology arrangement assets as a result of implementing GASB Statement No.96. The right of use assets are initially measured at an amount equal to the initial measurement of the related subscription-based information technology arrangement liability plus any payments made prior to the term, less incentives, and plus ancillary charges necessary to place into service. The right of use assets are amortized on a straight-line basis over the life of the related arrangement. See Note 4 for additional information.

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. The District adopted GASB Statement No. 101, which requires them to accrue an estimate of sick leave that is more likely than not to be utilized in the next year.

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 the 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's 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.

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.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

The District and Foundation apply Generally Accepted Accounting Principles (U.S. 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 Note 14 for a detailed listing of the deferred outflows 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 Notes 8 and 14 for a detailed listing of the deferred inflows of resources that the District has recognized.

Implemented GASB Pronouncements

During the fiscal year ended June 30, 2026, the District implemented GASB Statement No. 103 *Financial Reporting Model Improvements*, which had an effect on the illustration of both the Management Discussion and Analysis report and the Statement of Revenues, Expenditures, and Changes in Net Position. Refer to pages 4 through 10 and page 12.

During the fiscal year ended June 30, 2026, the District implemented GASB Statement No. 104 *Disclosure of Certain Capital Assets*, which had an effect on how certain capital assets are disclosed in the notes to the financial statements. Refer to Note 4 for a detailed listing of capital assets.

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 \$79,393,892 as of June 30, 2026, identified as the Facility Replacement Fund.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

3. CASH AND INVESTMENTS

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

	<u>June 30, 2026</u>	<u>June 30, 2025</u>
District's Statement of Net Position:		
Cash and cash equivalents	\$ 5,203,986	\$ 12,217,205
Investments- current	6,456,415	18,471,860
Investments- noncurrent	72,937,477	47,403,014
Fiduciary Statement of Net Position:		
Cash and cash equivalents	592,000	708,843
Investments	<u>4,718,041</u>	<u>4,312,700</u>
 Total Cash and Investments	 <u>\$ 89,907,919</u>	 <u>\$ 83,113,622</u>
 Cash and Investments consist of the following:		
Cash on Hand	\$ 745	\$ 739
Cash in Bank-District	4,725,900	8,158,086
Cash in Bank-Foundation	512,190	669,743
Money Market Funds	557,151	4,097,480
Investments	<u>84,111,933</u>	<u>70,187,574</u>
 Total Cash and Investments	 <u>\$ 89,907,919</u>	 <u>\$ 83,113,622</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, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

3. CASH AND INVESTMENTS (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	\$75 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	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
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment 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.

As of June 30, 2026

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49 Months or More
Corporate Bonds*	\$ 420,680	\$ 92,496	\$ 42,883	\$ 26,156	\$ 77,665	\$ 181,480
U.S. Treasury Notes	79,393,892	6,456,415	38,104,076	17,344,019	16,490,262	999,120
U.S. Treasury Notes*	502,087		34,966	55,628	69,642	341,851
Domestic Common Stock*	3,795,274	3,795,274				
Total	<u>\$ 84,111,933</u>	<u>\$ 10,344,185</u>	<u>\$ 38,181,925</u>	<u>\$ 17,425,803</u>	<u>\$ 16,637,569</u>	<u>\$ 1,522,451</u>

* Held by Foundation

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

3. CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

As of June 30, 2025

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49 months or More
Corporate Bonds*	\$ 424,273	\$ 45,753	\$ 100,329	\$ 42,702	\$ 26,418	\$ 209,071
U.S. Treasury Notes	65,874,874	18,471,860	9,291,790	31,904,972	4,684,217	1,522,035
U.S. Treasury Notes*	476,582		33,500	34,453	56,325	352,304
Domestic Common Stock*	3,411,845	3,411,845				
Total	<u>\$ 70,187,574</u>	<u>\$ 21,929,458</u>	<u>\$ 9,425,619</u>	<u>\$ 31,982,127</u>	<u>\$ 4,766,960</u>	<u>\$ 2,083,410</u>

* Held by Foundation

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 District's investment policy, and the actual rating as of fiscal year end for each investment type.

As of June 30, 2026:

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*	\$ 420,680	N/A	\$ -	\$ 60,257	\$ 139,675	\$ 220,748	\$ -
U.S. Treasury Notes	79,393,892	N/A	79,393,892				
U.S. Treasury Notes*	502,087	N/A	502,087				
Domestic Common Stock*	3,795,274	N/A					3,795,274
Total	<u>\$ 84,111,933</u>		<u>\$ 79,895,979</u>	<u>\$ 60,257</u>	<u>\$ 139,675</u>	<u>\$ 220,748</u>	<u>\$ 3,795,274</u>

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

3. CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk (Continued)

As of June 30, 2025:

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*	\$ 424,273	N/A	\$ -	\$ 34,523	\$ 164,271	\$ 225,479	\$ -
U.S. Treasury Notes	65,874,874	N/A	65,874,874				
U.S. Treasury Notes*	476,582	N/A	476,582				
Domestic Common Stock*	3,411,845	N/A					3,411,845
Total	<u>\$ 70,187,574</u>		<u>\$ 66,351,456</u>	<u>\$ 34,523</u>	<u>\$ 164,271</u>	<u>\$ 225,479</u>	<u>\$ 3,411,845</u>

* 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 no investments at June 30, 2026 and 2025 that represent 5% or more of total District investments (other than U.S. Treasury Notes).

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, 2026 and 2025, the District's deposits with financial institutions in excess of federal depository insurance limits are legally required by the California Government Code to be collateralized as noted above.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

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

The District has the following recurring fair value measurements;

As of June 30, 2026		Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value	Total			
Debt Securities				
Corporate Bonds	\$ 420,680	\$ 420,680	\$ -	\$ -
U.S. Treasury Notes	79,895,979	79,895,979		
Domestic Common Stock	3,795,274	3,795,274		
	<u>\$ 84,111,933</u>	<u>\$ 84,111,933</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2025		Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value	Total			
Debt Securities				
Corporate Bonds	\$ 424,273	\$ 424,273	\$ -	\$ -
U.S. Treasury Notes	66,351,456	66,351,456		
Domestic Common Stock	3,411,845	3,411,845		
	<u>\$ 70,187,574</u>	<u>\$ 70,187,574</u>	<u>\$ -</u>	<u>\$ -</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

4. CAPITAL ASSETS

Business-Type Activities

At June 30, 2026 and 2025, the capital assets of the business-type activities consisted of the following:

<u>June 30, 2026</u>	<u>Balance</u> <u>July 1, 2025</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2026</u>
Non-depreciable assets				
Land	\$ 3,859,100	\$ -	\$ -	\$ 3,859,100
Construction in progress	57,426			57,426
Total non-depreciable assets	3,916,526			3,916,526
Depreciable assets:				
Buildings and improvements	19,403,224	194,961	(152,728)	19,445,457
Mobile medical unit	381,768		(9,660)	372,108
Furniture and equipment	190,868	3,944		194,812
Total	19,975,860	198,905	(162,388)	20,012,377
Less accumulated depreciation	(13,864,075)	(662,631)	158,415	(14,368,291)
Total depreciable assets, net	6,111,785	(463,726)	(3,973)	5,644,086
Right of use asset				
Building	240,261			240,261
Total right of use asset	240,261			240,261
Less accumulated amortization	(88,712)	(22,178)		(110,890)
Total right of use assets, net	151,549	(22,178)		129,371
Subscription-Based Information Technology Arrangements				
Subscription-Based Information Technology Arrangements	15,755			15,755
Less accumulated amortization	(3,063)	(5,252)		(8,315)
Total subscription-based information technolgy arrangements, net	12,692	(5,252)		7,440
Total Capital Assets, Net	<u>\$ 10,192,552</u>	<u>\$ (491,156)</u>	<u>\$ (3,973)</u>	<u>\$ 9,697,423</u>

Depreciation and amortization expense consists of operating expense depreciation of \$289,352 and rental expense depreciation of \$400,709.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

4. CAPITAL ASSETS (CONTINUED)

Business-Type Activities (Continued)

<u>June 30, 2025</u>	Balance July 1, 2024	Additions	Deletions	Reclassification	Prior Period Adjustment	Balance June 30, 2025
Non-depreciable assets						
Land	\$ 3,859,100	\$ -	\$ -	\$ -	\$ -	\$ 3,859,100
Construction in progress	52,426	5,000				57,426
Total non-depreciable assets	3,911,526	5,000				3,916,526
Depreciable assets:						
Buildings and improvements	19,884,300	103,692	(387,555)	(197,213)		19,403,224
Mobile medical unit				381,768		381,768
Furniture and equipment	361,162	14,261		(184,555)		190,868
Total	20,245,462	117,953	(387,555)			19,975,860
Less accumulated depreciation	(13,581,267)	(670,363)	387,555			(13,864,075)
Total depreciable assets, net	6,664,195	(552,410)				6,111,785
Right of use asset						
Building	238,413				1,848	240,261
Total right of use asset	238,413				1,848	240,261
Less accumulated amortization	(66,534)	(22,178)				(88,712)
Total right of use assets, net	171,879	(22,178)			1,848	151,549
Subscription-Based Information Technology Arrangements						
Subscription-Based Information Technology Arrangements		15,755				15,755
Less accumulated amortization		(3,063)				(3,063)
Total subscription-based information technology arrangements, net		12,692				12,692
Total Capital Assets, Net	\$ 10,747,600	\$ (556,896)	\$ -	\$ -	\$ 1,848	\$ 10,192,552

Depreciation and amortization expense consists of operating expense depreciation of \$286,647 and rental expense depreciation of \$408,957.

5. RESTRICTED NET POSITION

The District had \$2,607,472 and \$2,112,552 of restricted net position at June 30, 2026 and 2025, respectively, related to the District's net pension asset.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

6. SPLIT INTEREST AGREEMENTS – FOUNDATION

At June 30, 2026 and 2025, the split interest agreements of the fiduciary fund consisted of the following:

	<u>2026</u>	<u>2025</u>
Contributions receivable - charitable remainder trusts	\$ 281,713	\$ 258,957
Total	<u>\$ 281,713</u>	<u>\$ 258,957</u>

Charitable Remainder 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 two 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, 2025 and 2024, which is the most current information available, the value at June 30, 2026 and 2025 was \$147,946.

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 value at June 30, 2026 and 2025 was \$133,767 and \$111,011, 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, 2026 and 2025, the total grant awards payable were \$7,268,559 and \$5,231,462, respectively. Total grant expense for the fiscal years ended June 30, 2026 and 2025 amounted to \$8,701,862 and \$4,322,446, respectively.

The Foundation has granted awards to various healthcare providers that provide needed healthcare services. At June 30, 2026 and 2025, the total grant awards payable were \$324,138 and \$857,359, respectively. Total grants and services expense for the fiscal years ended June 30, 2026 and 2025 amounted to \$570,321 and \$1,207,080, respectively.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

8. LEASE RECEIVABLE

Las Palmas Medical Plaza

The District currently has 22 office building lease agreements that are subject to GASB Statement No.87 in place as of June 30, 2026 at the Las Palmas Medical Plaza. Revenue recognition is in accordance with GASB Statement No. 87. The leases were entered into at various dates but under reporting requirements of GASB Statement No. 87, they all commence on July 1, 2021, without the need to restate balances that existed prior to that date. Summarized information for each lease is as follows:

Lessee	Location	Monthly rent for fiscal year ended June 30, 2026	Expiration (Not Including Options)	Lease receivable as of June 30, 2026
Eyecare Services Partner	1E 101-102	\$ 5,300	3/31/2028	\$ 418,158
Palm Tree Clinical	1E 201-203	5,577	1/31/2028	104,726
Pathway Pharmaceuticals	1W 101	1,988	12/31/2027	35,887
Cure Cardiovascular Consultants	1W 202-203	2,470	8/31/2027	34,958
Hashmi	2W 105-106	2,438	5/31/2028	56,062
Desert Family Medical	2W 203-204	3,110	12/31/2028	171,470
Labcorp	3E 104-105	4,108	10/31/2026	16,222
Ramy Awad	3W 105	2,816	9/30/2028	77,368
Desert Oasis	2W 107	2,062	12/31/2027	37,288
Quest Diagnostic	1W 102-103	3,348	5/31/2030	152,162
DPMG	1W 104	1,855	12/31/2029	75,418
FCPP	1W 201	2,505	8/31/2029	94,330
Tenet Healthsystem	2E 107	24,506	4/30/2029	801,978
DPMG	2W 103	3,385	6/30/2029	120,968
Tenet Healthsystem	3E 101-102	4,835	4/30/2030	216,411
DPMG	3W 101	2,999	12/31/2029	121,965
Caring for Women	2W-201	4,680	9/30/2030	236,310
DPMG	1E-204	1,584	10/31/2030	81,246
DPMG	1W 105-106	3,840	12/31/2030	203,295
Gundry, MD	3W 103-104	4,610	7/31/2030	224,574
Coachella Valley Volunteers in Medicine	1W 204	2,419	9/30/2027	36,290
Howard Aronow	2W 102	1,222	8/31/2028	31,783
				<u>\$ 3,348,869</u>

T-Mobile Cell Tower

In August 2021, the District entered into a lease with T-Mobile West LLC for use of land for the operation of cellular towers at 1150 No. Indian Canyon Dr. in Palm Springs, California. The term was for 5 years and includes four additional optional 5-year terms. If all extensions are exercised the lease would end in August of 2046. The options to extend are exercised unless written notification of cancellation occurs within 60 days prior to the expiration of the existing term. Initial rent payments were \$2,000 a month increasing by 15% every exercise of extension following the first extension under the terms of the lease. Payments received during the fiscal year were \$2,000 monthly from July 2025 through June 2026. The current 5-year term would end in June of 2031. The lease receivable as of June 30, 2026 was \$591,760.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

8. LEASE RECEIVABLE (CONTINUED)

Park Imperial Land Lease

In July 1994, the District was distributed certain parcels of land that underlies the Park Imperial North Condominium Project on Vista Chino in Palm Springs, California. The term of the lease is for 98 years beginning in October 1959, prior to distribution to the District. Rent payments from the condominium project are \$750 per month. Payments received during the fiscal year were \$750 monthly from July 2025 through December 2025. The land was sold and the lease was terminated during the fiscal year.

9. LEASE PAYABLE

The District has entered into agreements to lease office space. The lease agreements qualify as other than short-term leases under GASB Statement No.87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on July 1, 2021, to lease office space at 41550 Eclectic St. in Palm Springs, California. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 1.49%, which is Federal funds rate at the time of inception. As a result of the lease, the District has recorded a right of use asset with a net book value of \$134,009 at June 30, 2026. The right of use asset is discussed in more detail in Note 1 and 4.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2026, were as follows:

Fiscal Year Ended June 30,	Lease Payable		
	Principal	Interest	Total
2027	\$ 22,154	\$ 1,846	\$ 24,000
2028	22,487	1,513	24,000
2029	22,824	1,176	24,000
2030	23,166	834	24,000
2031	23,514	486	24,000
2032	19,864	136	20,000
	<u>\$ 134,009</u>	<u>\$ 5,991</u>	<u>\$ 140,000</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

10. SUBSCRIPTION-BASED TECHNOLOGY ARRANGEMENTS

The District has entered into subscription-based information technology arrangements (SBITAs) involving:

Trakstar employee performance review software

The software arrangements mature as follows:

Fiscal Year Ended June 30,	SBITA Payable		
	Principal	Interest	Total
2027	\$ 5,658	\$ 127	\$ 5,785
	\$ 5,658	\$ 127	\$ 5,785

11. 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.

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 457(B) and 401(A) retirement plans. 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 fiscal years ended June 30, 2026 and 2025 were \$143,733 and \$118,936, respectively.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

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 financial statements for more detailed 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 (dated as of June 30, 2026), the Plan's independent actuary determined that the actuarial value of the Plan's net pension asset was \$2,607,472 at June 30, 2026 and \$2,112,552 at June 30, 2025. In the report it was recommended that an actuarially determined contribution of \$0 as of June 30, 2026 and \$0 as of June 30, 2025, should be made due to the Plan's funded status.

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.

Pursuant to the District's approval of Resolution 26-05; the District has decided to terminate the Plan effective June 30, 2026 and all distributions should be effectuated during the 2026-2027 fiscal year.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

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	44%	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
6/30/2023	4,493,259	3,036,119	(1,457,140)	148%	N/A	N/A
6/30/2024	4,444,098	2,715,761	(1,728,337)	164%	N/A	N/A
6/30/2025	4,679,055	2,566,503	(2,112,552)	182%	N/A	N/A
6/30/2026	5,062,212	2,454,740	(2,607,472)	206%	N/A	N/A

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

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

Plan Description

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

Employees Covered

At June 30, 2026 and 2025, the following employees were covered by the benefit terms:

	<u>2026</u>	<u>2025</u>
Inactive plan members of beneficiaries currently receiving benefits	6	6
Inactive plan members entitled to but not yet receiving benefits	49	49
Active plan members	52	52
Total Employees Covered	<u>107</u>	<u>107</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN (CONTINUED)

Contributions

There have been no contribution requirements by the District since May 31, 1997. Participant contributions to the Plan are not permitted.

Net Pension Liability (Asset)

The District's net pension liability (asset) 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, 2026 actuarial valuations were determined using the following actuarial assumptions:

Inflation	2.40%
Discount rate	6.12%, net of pension plan investment expense, including inflation.
Measurement date	June 30, 2026, based on a valuation date of June 30, 2025.
Ad hoc cost-of-living increases	Not applicable
Mortality	Pre-Retirement: None Post-Retirement: PubG-2016 Sex distinct mortality tables projected generationally with Scale MP-2021 from 2016
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, 2025 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 6.12 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 6.12 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 6.12 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 6.27 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.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN (CONTINUED)

Net Pension Liability (Asset) (Continued)

The Plan expects to continue using a discount rate net of administrative expenses for GASB Statement No. 67 and 68 calculations through the 2026-2027 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.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. 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.

Changes in the Net Pension Liability (Asset)

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%	1.96%
Domestic equities	45.0%	4.85%
International equities	15.0%	4.85%
Cash	5.0%	0.73%

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

Changes in the Net Pension Liability (Asset) (Continued)

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability/(Asset) (c) = (a) - (b)
Balance, June 30, 2025	\$ 2,566,503	\$ 4,679,055	\$ (2,112,552)
Changes in Recognized for the Measurement Period:			
Employer Contributions			
Interest on the Total Pension Liability	152,115		152,115
Changes in Assumptions	1,449		1,449
Net Investment Income		680,747	(680,747)
Benefit Payments, including Refunds of Employee Contributions	(265,327)	(265,327)	
Administrative Expenses		(32,263)	32,263
Net Changes during 2025-2026	(111,763)	383,157	(494,920)
Balance, June 30, 2026	\$ 2,454,740	\$ 5,062,212	\$ (2,607,472)

Sensitivity of the Net Pension Liability (Asset) 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 6.12 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 (5.12 percent) or 1 percentage-point higher (7.12 percent) than the current rate:

	<u>1% Decrease (5.12%)</u>	<u>Current Discount Rate (6.12%)</u>	<u>1% Increase (7.12%)</u>
Net pension liability	\$ (2,594,309)	\$ (2,607,472)	\$ (2,617,230)

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, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

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

For the fiscal year ended June 30, 2026, the District recognized pension expense of (\$132,911). At June 30, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net differences between projected and actual earnings on pension plan investments	-	(522,575)
Total	-	(522,575)

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

Fiscal Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2027	\$ (181,483)
2028	(152,420)
2029	(115,805)
2030	(72,867)
Total	\$ (522,575)

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 \$0 and \$750,000 to the Foundation, to help fulfill their purpose during June 30, 2026 and 2025, respectively. The District also provided the Foundation with office space and personnel of \$306,364 and \$262,994 during June 30, 2026 and 2025, respectively.

Grants payable to the Foundation as of June 30, 2026 amounted to \$0. As of June 30, 2026 accounts receivable from the Foundation were \$55,123.

16. PRIOR PERIOD ADJUSTMENTS

In the fiscal year ended June 30, 2025, there was a prior period adjustment of (\$42,312) on the statement of activities, which includes (\$42,432) related to the understatement of lease receivables, \$1,848 related to an understatement of right to use assets, and (\$1,728) related to an understatement of lease payable.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2026

WITH COMPARATIVE TOTALS AT JUNE 30, 2025

17. SUBSEQUENT EVENT

The District evaluated all potential subsequent events as of October 6, 2026, when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2026 or as of October 6, 2026 that require disclosure to the financial statements.

18. UPCOMING ACCOUNTING AND REPORTING CHANGES

The provisions of Statement Number 105 “Subsequent Events” are effective for fiscal years beginning after June 15, 2026.

REQUIRED SUPPLEMENTARY INFORMATION

DESERT HEALTHCARE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2026

Prepared for the Desert Healthcare District, a Single-Employer Defined Benefit Pension Plan as of June 30, 2026

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

	2026	2025	2024	2023	2022
TOTAL PENSION LIABILITY					
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	152,115	161,932	182,433	207,687	229,605
Changes of Benefit Terms	-	-	-	-	-
Difference between Expected and Actual Experience	-	\$ (59,397)	-	(224,667)	-
Changes of Assumptions	1,449	(2,107)	7,466	(14,943)	23,267
Benefit Payments	(265,327)	(249,686)	(510,257)	(520,550)	(172,220)
Net Change in Total Pension Liability	(111,763)	(149,258)	(320,358)	(552,473)	80,652
Total Pension Liability - Beginning	2,566,503	2,715,761	3,036,119	3,588,592	3,507,940
Total Pension Liability - Ending	\$ 2,454,740	\$ 2,566,503	\$ 2,715,761	\$ 3,036,119	\$ 3,588,592
PLAN FIDUCIARY NET POSITION					
Contributions from the Employer/Member	\$ -	\$ -	\$ -	\$ -	\$ -
Net Investment Income	680,747	514,465	484,012	444,979	(512,520)
Administrative Expenses	(32,263)	(29,822)	(22,916)	(29,009)	(32,394)
Benefit Payments	(265,327)	(249,686)	(510,257)	(520,549)	(172,220)
Net Change in Plan Fiduciary Net Position	383,157	234,957	(49,161)	(104,579)	(717,134)
Plan Fiduciary Net Position - Beginning	4,679,055	4,444,098	4,493,259	4,597,838	5,314,972
Plan Fiduciary Net Position - Ending	\$ 5,062,212	\$ 4,679,055	\$ 4,444,098	\$ 4,493,259	\$ 4,597,838
Plan Net Pension Liability (Asset) - Ending	\$ (2,607,472)	\$ (2,112,552)	\$ (1,728,337)	\$ (1,457,140)	\$ (1,009,246)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	206.22%	182.31%	163.64%	147.99%	128.12%
Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Net Pension Liability (Asset) as a percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A
	2021	2020	2019	2018	2017
TOTAL PENSION LIABILITY					
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	342,696	374,170	385,951	399,298	321,990
Changes of Benefit Terms	-	-	-	-	-
Difference between Expected and Actual Experience	(1,123,559)	-	(802,110)	-	(437,093)
Changes of Assumptions	(4,503,151)	912,601	769,854	315,705	(2,852,163)
Benefit Payments	(596,263)	(208,084)	(511,792)	(466,670)	(382,380)
Net Change in Total Pension Liability	(5,880,277)	1,078,687	(158,097)	248,333	(3,349,646)
Total Pension Liability - Beginning	9,388,217	8,309,530	8,467,627	8,219,294	11,568,940
Total Pension Liability - Ending	\$ 3,507,940	\$ 9,388,217	\$ 8,309,530	\$ 8,467,627	\$ 8,219,294
PLAN FIDUCIARY NET POSITION					
Contributions from the Employer/Member	\$ -	\$ -	\$ -	\$ -	\$ 3,400,000
Net Investment Income	1,127,272	78,140	235,865	347,969	426,828
Administrative Expenses	-	-	-	(35,638)	(24,513)
Benefit Payments	(596,263)	(208,084)	(511,792)	(466,670)	(382,380)
Net Change in Plan Fiduciary Net Position	531,009	(129,944)	(275,927)	(154,339)	3,419,935
Plan Fiduciary Net Position - Beginning	4,783,963	4,913,907	5,189,834	5,344,173	1,924,238
Plan Fiduciary Net Position - Ending	\$ 5,314,972	\$ 4,783,963	\$ 4,913,907	\$ 5,189,834	\$ 5,344,173
Plan Net Pension Liability (Asset) - Ending	\$ (1,807,032)	\$ 4,604,254	\$ 3,395,623	\$ 3,277,793	\$ 2,875,121
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	151.51%	50.96%	59.14%	61.29%	65.02%
Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Net Pension Liability (Asset) as a percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

(Continued)

DESERT HEALTHCARE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2026

Prepared for the Desert Healthcare District, a Single-Employer Defined Benefit Pension Plan as of June 30, 2026

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

Notes to Schedule

Changes in Assumptions:

- In 2017, the post-retirement mortality tables were changed from 2015 annuitant tables to 2017 annuitant tables
- In 2019, the interest rate changed to 6.82% per annum compounded from 7.5% pre-retirement and 6.5% post retirement.
- In 2019, the post-retirement mortality tables were changed from 2017 IRS Static Mortality table to Scale MP-2018 PubG-2010 sex distinct mortality tables
- In 2021, the interest rate changed to 6.71% from 6.82%
- In 2021, the interest credit rate changed to 2% per annum from 4% per annum
- In 2021, the conversion rate changed to 3% per annum from 5% per annum
- In 2021, the form of payment assumption changed to assume 95% of participants take a lump sum payment and 5% take an annuity
- In 2021, the retirement assumption was updated to assume the active participants retire at age 65 and terminated vested participants take an immediate lump sum payment
- In 2021, the post-retirement mortality tables were changed from Scale MP-2018 PubG-2010 sex distinct mortality tables to Scale MP-2020 PubG-2010 sex distinct mortality tables
- In 2023, the interest rate changed to 6.56% from 6.71%
- In 2023, the post-retirement mortality tables were changed from Scale MP-2020 PubG-2010 sex distinct mortality tables to Scale MP-2021 PubG-2010 sex distinct mortality tables
- In 2024, the inflation rate changed to 2.50% from 2.75%
- In 2024, the discount rate changed to 6.25% from 6.56%
- In 2025, the money-weighted rate of return changed to 11.22% from 10.86%
- In 2025, the post-retirement mortality tables were changed from Scale MP-2021 PubG-2010 sex distinct mortality tables to Scale MP-2021 PubG-2016 sex distinct mortality tables
- In 2026, the inflation rate changed to 2.40% from 2.50%
- In 2026, the discount rate changed to 6.12% from 6.25%

DESERT HEALTHCARE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2026

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

Measurement period	<u>6/30/2026</u>	<u>6/30/2025</u>	<u>6/30/2024</u>	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2021</u>	<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 OPEB Liability	-	-	-	-	-	-	2,957	3,684	4,057
Benefit Payments and write offs	-	-	-	-	-	(67,364)	(20,321)	(23,490)	(22,587)
Net Change in Total OPEB Liability						(67,364)	(20,609)	(20,714)	(18,530)
Total OPEB Liability - Beginning	-	-	-	-	-	67,364	87,973	108,687	127,217
Total OPEB Liability - Ending (a)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,364</u>	<u>\$ 87,973</u>	<u>\$ 108,687</u>
Plan Fiduciary Net Position									
Contribution from the Employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,400	\$ 20,321	\$ 23,490	\$ 22,587
Net investment income	-	-	-	-	-	-	-	-	-
Benefit Payments	-	-	-	-	-	(21,400)	(20,321)	(23,490)	(22,587)
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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,364</u>	<u>\$ 87,973</u>	<u>\$ 108,687</u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</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>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>
 Net OPEB Liability as Percentage of Covered-Employee Payroll	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>	 <u>N/A</u>

Notes to Schedule:

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

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

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