



DESERT HEALTHCARE DISTRICT
Finance, Legal, Administration, & Real Estate Committee Meeting
October 8, 2019

A meeting of the Finance, Legal, Administration, & Real Estate Committee of the Desert Healthcare District will be held at 3:00 PM, Tuesday, October 8, 2019, in the conference room on the 2nd floor of the Jerry Stergios Building, 1140 N. Indian Canyon Drive, Palm Springs, California.

AGENDA

I. CALL TO ORDER

II. APPROVAL OF AGENDA

III. PUBLIC COMMENT

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

IV. APPROVAL OF MINUTES

ACTION

1. F&A Minutes – Meeting September 10, 2019 – Pg. 3-8

V. CEO REPORT

VI. CHIEF FINANCIAL OFFICER’S REPORT – Pg. 9

Information

1. LPMP Leasing Update – Pg. 10

VII. FINANCIAL REPORTS

ACTION

1. District and LPMP Financial Statements – Pg. 11-22
2. Accounts Receivable Aging Summary – Pg. 23
3. District - Deposits – Pg. 24
4. District - Property tax receipts – Pg. 25
5. LPMP – Deposits – Pg. 26-27
6. District – Check Register – Pg. 28-29
7. Credit Card – Detail of Expenditures – Pg. 30
8. LPMP – Check Register – Pg. 31
9. Retirement Protection Plan Update – Pg. 32
10. Grant Payment Schedule – Pg. 33

VIII. OTHER MATTERS

1. Craig Hartzheim – Moss Levy & Hartzheim – FY 2019 Audit Reports – District & RPP
 - a. Management Letter, Communication Letter, Internal Controls Report – Pg. 34-43
 - b. District Audit Report – Pg. 44-85
 - c. RPP Audit Report – Pg. 86-103
2. Auditing Firms – Request for Proposal – Pg. 104-108
3. LPMP Lease Renewal – Suite 3E 104-105 – Laboratory Corporation of America – Pg. 109-130
4. Las Palmas Medical Plaza - Fire Sprinkler Alarm Proposal – Pg. 131-136
5. Political Consultants for Potential Hospital Lease/Transaction – Pg. 137
6. Policy Map – 15 Month Subscription - \$5,005.54 – Pg. 138-146

ACTION

ACTION

ACTION

ACTION

ACTION

Information



DESERT HEALTHCARE DISTRICT
Finance, Legal, Administration, & Real Estate Committee Meeting
October 8, 2019

IX. ADJOURNMENT

If you have any disability which would require accommodation to enable you to participate in this meeting, please email Andrea S. Hayles, Special Assistant to the CEO and Board Relations Officer, at ahayles@dhcd.org or call (760) 323-6110 at least 24 hours prior to the meeting.



DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 10, 2019

Directors Present	District Staff Present	Absent
Chairman/Treasurer Mark Matthews Vice-President Leticia De Lara, MPH Director Arthur Shorr – <i>Telephonic</i>	Conrado E. Bárzaga, MD, Chief Executive Officer Chris Christensen, Chief Financial Officer Stephen Huyck, Accounting Manager Andrea S. Hayles, Clerk to the Board	

AGENDA ITEMS	DISCUSSION	ACTION
I. Call to Order	Chairman Matthews called the meeting to order at 3:00 p.m.	
II. Approval of Agenda	Chairman Matthews asked for a motion to approve the agenda. Chairman Matthews moved to table Item VIII.8.	Moved and seconded by Chairman Matthews and Vice-President De Lara to approve the agenda and tabling Item VIII.8. Motion passed unanimously.
III. Public Comment	There was no public comment.	
IV. Approval of Minutes 1. F&A Minutes – Meeting July 9, 2019	Chairman Matthews motioned to approve the July 9, 2019 minutes.	Moved and seconded by Chairman Matthews and Director Shorr to approve the minutes. Motion passed unanimously.
V. CEO Report	Conrado E. Bárzaga, MD, Chief Executive Officer, described his internal assessment of the District and the immediate staffing needs for reorganization that include costs savings, and outlining the agenda items and follow-up discussions on the Community Needs Assessment RFP.	
VI. Chief Financial Officer’s Report 1. LPMP Leasing Update	Chris Christensen, CFO, explained the most recent lease renewals and three (3) vacancies with the goal of 100% occupancy.	
VII. Financial Reports 1. District and LPMP Financial Statements	Chris Christensen, CFO, described the financials such as the profit and loss net revenue	Moved and seconded by Vice-President De Lara and Director Shorr to approve the July and August 2019

**DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 10, 2019**

<p>2. Accounts Receivable Aging Summary</p> <p>3. District – Deposits</p> <p>4. District – Property Tax Receipts</p> <p>5. LPMP Deposits</p> <p>6. District – Check Register</p> <p>7. Credit Card – Detail of Expenditures</p> <p>8. LPMP – Check Register</p> <p>9. Retirement Protection Plan Update</p> <p>10. Grant Payment Schedule</p>	<p>and replying to inquiries on the A/R Aging summary.</p> <p>Director De Lara inquired if the District has assessed a company vehicle due to staff’s numerous trips to meetings throughout the valley and Los Angeles County. Staff explained that the District has a mileage reimbursement policy.</p> <p>Mr. Christensen explained that the participant funds for Retirement Protection Plan (RPP) participants whose annual letters have been returned undeliverable will be sent to the State. Accounting will contact Desert Regional Medical Center’s human resources department to verify the addresses before moving forward.</p>	<p>District Financial Reports - Items 1-10 and to forward to the Board for approval.</p> <p>Motion passed unanimously.</p>
<p>VIII. Other Matters</p> <p>1. LPMP Lease Extension – Suite 1W 201 – Peter Jamieson, MD</p> <p>2. LPMP Lease – Suites 1W 105-106 – Cohen, Musch, & Thomas Medical Group</p>	<p>Chris Christensen, CFO, explained the 5-year lease renewal with a base rent of \$1.86/sq. ft., and \$15/sq. ft. tenant improvement allowance. The lease will commence on October 1.</p> <p>Chris Christensen, CFO, explained that Cohen, Musch, & Thomas is moving to a new suite with tenant improvement work scheduled for completion in December, and a proposed Oct. 1 lease date. The term of the lease is 5-years at \$1.52/sq. ft.</p>	<p>Moved and seconded by Vice-President De Lara and Director Shorr to approve the LPMP Lease Extension – Suite 1W 201 – Peter Jamieson, MD and forward to the Board for approval.</p> <p>Motion passed unanimously.</p> <p>Moved and seconded by Director Shorr and Vice-President De Lara to approve the LPMP Lease – Suites 1W 105-106 – Cohen, Musch, & Thomas Medical Group and forward to the Board for approval.</p> <p>Motion passed unanimously.</p>

DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 10, 2019

<p>3. LPMP Lease Extension – Suite 1W 204 – Dennis Spurgin, DC</p>	<p>Chris Christensen, CFO, explained that the lease is a 5-year renewal with a start date of Oct. 1, and tenant improvements at \$1.52/sq. ft.</p>	<p>Moved and seconded by Vice-President De Lara and Director Shorr to approve the LPMP Lease Extension – Suite 1W 204 – Dennis Spurgin, DC, and forward to the Board for approval. Motion passed unanimously.</p>
<p>4. Revised Organizational Chart, Proposed Salaries, and Job Descriptions</p>	<p>Conrado E. Bázquez, MD, Chief Executive Officer, explained the programmatic side of grant-making and the administrative side with legal and human resources – eliminating the Chief Financial Officer position and replacing with a Chief Administrative Officer. A human resources consultant is necessary to stay apprised on the legal aspects and updating the District’s employee manual. Supporting the two functions would require an administrative assistant – a total savings of \$155k.</p> <p>At the request of Vice-President De Lara, the committee directed staff to include legal on the organizational chart, reporting directly to the Board. Vice-President De Lara recommended a public policy intern or an intern in a similar position.</p>	<p>Moved and seconded by Director Shorr and Vice-President De Lara to approve the Revised Organizational Chart, Proposed Salaries, and Job Descriptions and forward to the Board for approval. Motion passed unanimously.</p>
<p>5. Human Resources Consultant Service Agreement</p>	<p>Conrado E. Bázquez, MD, Chief Executive Officer, described his request for a human resources consultant for the purposes of an immediate need to review</p>	<p>Moved and seconded by Director Shorr and Vice-President De Lara to approve the Human Resources Consultant Service Agreement</p>



DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 10, 2019

	<p>the employee handbook, training compliance, and labor laws that require review of the District’s human resources processes.</p>	<p>and forward to the Board for approval. Motion passed unanimously.</p>
<p>6. First Amendment to CEO Employment Agreement – Auto Allowance \$500/month</p>	<p>Chris Christensen, CFO, described the amendment to the CEO employment agreement based on extensive travel and the need for a \$500/month auto allowance.</p>	<p>Moved and seconded by Vice-President De Lara and Chairman Matthews to approve the First Amendment to CEO Employment Agreement – Auto Allowance and forward to the Board for approval. Motion passed unanimously.</p>
<p>7. Community Needs Assessment RFP – NTE \$300,000</p>	<p>Conrado E. Bázquez, MD, Chief Executive Officer, explained that the Strategic Planning Committee will meet to discuss the views and opinions expressed in the Program Committee since the assessment is related to the strategic plan.</p>	
<p>8. Coachella Valley Association of Governments (CVAG) CV Link MOU Review and Analysis – Contingency and Conditions</p>	<p>The item was pulled from the agenda and tabled for the October meeting.</p>	
<p>9. Political Consultants for Potential Hospital Lease/Transaction</p>	<p>Conrado E. Bázquez, MD, Chief Executive Officer, described the ad hoc committee Tenet lease meeting with Kaufman Hall, the committee’s understanding and the potential intentions of the</p>	

**DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 10, 2019**

	<p>voters with a request for a political consultant to provide services concerning the political implications, which would include polling, and determining a March 2020 or November 2020 ballot measure. In the event of the unknown, the District should be prepared including with talking points to present the sensitive information.</p> <p>Linda Evans, Chief Strategy Officer, Desert Regional Medical Center, explained that a proposal from the local firms with surveys and analysis to determine the strategic outreach throughout the District to pass the vote is underway.</p> <p>Chairman Matthews emphasized the upcoming ad hoc committee meeting with Tenet, he is uncomfortable with the timing, another month is necessary, and he will not be supporting the political consultant at this time.</p> <p>Since the other two committee members are hesitant to move forward, Vice-President De Lara requested more details if the matter will be moved to 30-days.</p> <p>There was no motion to approve the political consultant agreement, and the committee will await an update after the</p>	
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DESERT HEALTHCARE DISTRICT
FINANCE, ADMINISTRATION, REAL ESTATE, LEGAL, AND COMMITTEE
MEETING MINUTES
September 10, 2019

	upcoming ad hoc committee meeting.	
IV. Adjournment	Chairman Matthews adjourned the meeting at 4:06 p.m.	Audio recording available on the website at http://dhcd.org/Agendas-and-Documents

ATTEST: _____
Mark Matthews, Chairman/Treasurer Finance & Administration Committee
Desert Healthcare District Board of Directors

Minutes respectfully submitted by Andrea S. Hayles, Clerk of the Board

DRAFT



Chief Financial Officer's Report

October 8, 2019

Las Palmas Medical Plaza - Property Management:

Occupancy:

See attached unit rental status report.

95.9% currently occupied –

Total annual rent including CAM fees is **\$1,198,901**.

Leasing Activity:

Cohen, Musch, Thomas Medical Group (currently located in 3W-101) is beginning tenant improvement work in their newly leased suites (1W 105-106).

The District is currently negotiating terms with an interested party for suite 3W-101.

The District was contacted by a party interested in leasing unit 2W-107.

Las Palmas Medical Plaza
Unit Rental Status
As of October 1, 2019

Unit	Tenant Name	Deposit	Lease Dates		Term	Unit Sq Feet	Percent of Total	Monthly Rent	Annual Rent	Rent Per Sq Foot	Monthly	Total Monthly	Total Annual
			From	To							CAM	Rent Incig CAM	Rent Incig CAM
											\$ 0.62		
1W, 104	Vacant					1,024	2.07%						
2W, 107	Vacant					1,024	2.07%						
3W, 101	Available when Cohen, Musch relocates to 1W, 105-106					1,656	3.36%						
Total - Vacancies						2,048	4.1%	Currently excludes 3W, 101					
Total Suites-33 - 29 Suites Occupied		\$ 57,097.90				49,356	95.9%	\$ 71,894.33	\$ 862,731.96	\$ 1.52	\$ 28,014.08	\$ 99,908.41	\$ 1,198,901
Summary - All Units													
			Vacant	2,048	4.1%								
			Pending	0	0%								
			Total	49,356	100%								

DESERT HEALTHCARE DISTRICT
SEPTEMBER 2019 FINANCIAL STATEMENTS
INDEX
Year to Date Variance Analysis
Cumulative Profit & Loss Budget vs Actual - Summary
Cumulative Profit & Loss Budget vs Actual - District Including LPMP
Cumulative Profit & Loss Budget vs Actual - LPMP
Balance Sheet - Condensed View
Balance Sheet - Expanded View
Accounts Receivable Aging
Deposit Detail - District
Property Tax Receipts - YTD
Deposit Detail - LPMP
Check Register - District
Credit Card Expenditures
Check Register - LPMP
Grants Schedule

DESERT HEALTHCARE DISTRICT
YEAR TO DATE VARIANCE ANALYSIS
ACTUAL VS BUDGET
THREE MONTHS ENDED SEPTEMBER 30, 2019

Scope: \$25,000 Variance per Statement of Operations Summary

Account	YTD		Over(Under)	Explanation
	Actual	Budget	Budget	
4000 - Income	\$ 2,119,185	\$ 2,058,192	\$ 60,993	Interest income (net) from FRF investments \$72k; lower NEOPB Grant Income \$11k
5000 - Direct Expenses	\$ 156,432	\$ 267,360	\$ (110,928)	Lower wage expense \$84k due to no COO salary; lower health insurance related expenses \$23.5k; lower various 3.5k
7000 - Grants Expense	\$ 318,946	\$ 900,126	\$ (581,180)	Budget of \$3.5 Million for fiscal year is amortized straight-line over 12-month fiscal year.

Desert Healthcare District
Cumulative Profit & Loss Budget vs. Actual
 July through September 2019

	MONTH			TOTAL		
	Sep 19	Budget	\$ Over Budget	Jul - Sep 19	Budget	\$ Over Budget
Income						
4000 · Income	577,355	686,064	(108,709)	2,119,185	2,058,192	60,993
4500 · LPMP Income	99,904	101,500	(1,596)	297,358	304,300	(6,942)
4501 · Miscellaneous Income	750	950	(200)	2,250	2,850	(600)
Total Income	678,009	788,514	(110,505)	2,418,793	2,365,342	53,451
Expense						
5000 · Direct Expenses	63,404	89,120	(25,716)	156,432	267,360	(110,928)
6000 · General & Administrative Exp	40,020	43,082	(3,062)	114,917	129,245	(14,328)
6325 · CEO Discretionary Fund	-	417	(417)	-	1,251	(1,251)
6445 · LPMP Expenses	80,028	82,398	(2,370)	234,891	247,194	(12,303)
6500 · Professional Fees Expense	266,011	98,748	167,263	313,266	296,244	17,022
6700 · Trust Expenses	10,456	11,245	(789)	31,368	33,735	(2,367)
Total Expense Before Grants	459,919	325,010	134,909	850,874	975,029	(124,155)
7000 · Grants Expense	295,717	300,042	(4,325)	318,946	900,126	(581,180)
Net Income	(77,628)	163,465	(241,094)	1,248,971	490,190	758,781

Desert Healthcare District
Cumulative Profit & Loss Budget vs. Actual
July through September 2019

	MONTH			TOTAL		
	Sep 19	Budget	\$ Over Budget	Jul - Sep 19	Budget	\$ Over Budget
Income						
4000 · Income						
4010 · Property Tax Revenues	561,355	561,355	-	1,684,065	1,684,065	-
4200 · Interest Income						
4220 · Interest Income (FRF)	154,806	106,250	48,556	332,366	318,750	13,616
9999-1 · Unrealized gain(loss) on invest	(146,054)	8,333	(154,387)	83,779	24,999	58,780
Total 4200 · Interest Income	8,752	114,583	(105,831)	416,145	343,749	72,396
4300 · DHC Recoveries	1,749	1,750	(1)	5,247	5,250	(3)
4400 · Grant Income	5,499	8,375	(2,876)	13,728	25,125	(11,397)
Total 4000 · Income	577,355	686,063	(108,708)	2,119,185	2,058,189	60,996
4500 · LPMP Income	99,904	101,500	(1,596)	297,358	304,300	(6,942)
4501 · Miscellaneous Income	750	950	(200)	2,250	2,850	(600)
Total Income	678,009	788,513	(110,504)	2,418,793	2,365,339	53,454
Expense						
5000 · Direct Expenses						
5100 · Administration Expense						
5110 · Wages Expense	59,170	82,846	(23,676)	164,173	248,538	(84,365)
5111 · Allocation to LPMP - Payroll	(5,085)	(5,084)	(1)	(15,255)	(15,252)	(3)
5112 · Vacation/Sick/Holiday Expense	9,394	7,500	1,894	19,588	22,500	(2,912)
5114 · Allocation to Foundation	(25,473)	(25,473)	-	(76,419)	(76,419)	-
5115 · Allocation to NEOPB	(5,191)	(7,289)	2,098	(12,325)	(21,867)	9,542
5119 · Allocation to RSS/CVHIP-DHCF	(2,538)	(2,382)	(156)	(4,841)	(7,146)	2,305
5120 · Payroll Tax Expense	5,253	6,338	(1,085)	14,851	19,014	(4,163)
5130 · Health Insurance Expense						
5131 · Premiums Expense	8,619	12,213	(3,594)	25,098	36,639	(11,541)
5135 · Reimb./Co-Payments Expense	557	2,250	(1,693)	3,760	6,750	(2,990)
Total 5130 · Health Insurance Expense	9,176	14,463	(5,287)	28,858	43,389	(14,531)
5140 · Workers Comp. Expense	1,535	870	665	2,821	2,610	211
5145 · Retirement Plan Expense	3,411	4,212	(801)	10,243	12,636	(2,393)
5160 · Education Expense	6,931	625	6,306	8,071	1,875	6,196
Total 5100 · Administration Expense	56,583	76,626	(20,043)	139,765	229,878	(90,113)
5200 · Board Expenses						
5210 · Healthcare Benefits Expense	2,788	5,834	(3,046)	8,363	17,502	(9,139)
5230 · Meeting Expense	2,664	1,667	997	3,613	5,001	(1,388)
5235 · Director Stipend Expense	1,200	4,200	(3,000)	3,500	12,600	(9,100)
5240 · Catering Expense	138	583	(445)	1,121	1,749	(628)
5250 · Mileage Reimbursement Expense	30	208	(178)	66	624	(558)

Desert Healthcare District
Cumulative Profit & Loss Budget vs. Actual
 July through September 2019

	MONTH			TOTAL		
	Sep 19	Budget	\$ Over Budget	Jul - Sep 19	Budget	\$ Over Budget
Total 5200 · Board Expenses	6,820	12,492	(5,672)	16,663	37,476	(20,813)
Total 5000 · Direct Expenses	63,403	89,118	(25,715)	156,428	267,354	(110,926)
6000 · General & Administrative Exp						
6110 · Payroll fees Expense	161	208	(47)	479	624	(145)
6120 · Bank and Investment Fees Exp	9,562	9,833	(271)	28,089	29,499	(1,410)
6125 · Depreciation Expense	986	1,250	(264)	2,958	3,750	(792)
6126 · Depreciation-Solar Parking lot	15,072	15,072		45,216	45,216	
6130 · Dues and Membership Expense	1,389	2,500	(1,111)	3,667	7,500	(3,833)
6200 · Insurance Expense	1,753	1,500	253	5,259	4,500	759
6300 · Minor Equipment Expense	-	42	(42)	-	126	(126)
6305 · Auto Allowance & Mileage Exp	-	600	(600)	-	1,800	(1,800)
6306 · Staff- Auto Mileage reimb	390	500	(110)	266	1,500	(1,234)
6309 · Personnel Expense	-	83	(83)	6,000	249	5,751
6310 · Miscellaneous Expense	-	42	(42)	53	126	(73)
6311 · Cell Phone Expense	482	776	(294)	1,429	2,328	(899)
6312 · Wellness Park Expenses	-	83	(83)	-	249	(249)
6315 · Security Monitoring Expense	-	42	(42)	108	126	(18)
6340 · Postage Expense	-	417	(417)	278	1,251	(973)
6350 · Copier Rental/Fees Expense	394	458	(64)	788	1,374	(586)
6351 · Travel Expense	2,109	917	1,192	2,981	2,751	230
6352 · Meals & Entertainment Exp	569	583	(14)	1,413	1,749	(336)
6355 · Computer Services Expense	1,835	3,775	(1,940)	4,683	11,325	(6,642)
6360 · Supplies Expense	4,615	1,667	2,948	9,144	5,001	4,143
6380 · LAFCO Assessment Expense	153	1,667	(1,514)	459	5,001	(4,542)
6400 · East Valley Office						
6405 · East Valley Office - Rent	550	650	(100)	1,650	1,950	(300)
6410 · East Valley Office - Utilities	-	417	(417)	-	1,251	(1,251)
Total 6400 · East Valley Office	550	1,067	(517)	1,650	3,201	(1,551)
Total 6000 · General & Administrative Exp	40,020	43,082	(3,062)	114,920	129,246	(14,326)
6325 · CEO Discretionary Fund		417	(417)		1,251	(1,251)
6445 · LPMP Expenses	80,030	82,395	(2,365)	234,893	247,185	(12,292)
6500 · Professional Fees Expense						
6516 · Professional Services Expense	248,310	70,000	178,310	254,222	210,000	44,222
6520 · Annual Audit Fee Expense	1,563	1,540	23	4,689	4,620	69
6530 · PR/Communications/Website	4,951	7,208	(2,257)	8,565	21,624	(13,059)
6560 · Legal Expense	11,188	20,000	(8,812)	45,793	60,000	(14,207)
Total 6500 · Professional Fees Expense	266,012	98,748	167,264	313,269	296,244	17,025
6700 · Trust Expenses						

Desert Healthcare District
Cumulative Profit & Loss Budget vs. Actual
 July through September 2019

	MONTH			TOTAL		
	Sep 19	Budget	\$ Over Budget	Jul - Sep 19	Budget	\$ Over Budget
6711 · Disability Admin. Fee Expense	-	537	(537)	-	1,611	(1,611)
6720 · Pension Plans Expense						
6721 · Legal Expense	-	167	(167)	-	501	(501)
6725 · RPP Pension Expense	10,000	10,000	-	30,000	30,000	-
6728 · Pension Audit Fee Expense	456	542	(86)	1,368	1,626	(258)
Total 6720 · Pension Plans Expense	10,456	10,709	(253)	31,368	32,127	(759)
Total 6700 · Trust Expenses	10,456	11,246	(790)	31,368	33,738	(2,370)
Total Expense Before Grants	459,921	325,006	134,915	850,878	975,018	(124,140)
7000 · Grants Expense						
7010 · Major Grant Awards Expense	290,218	291,667	(1,449)	305,218	875,001	(569,783)
7027 · Grant Exp - NEOPB	5,499	8,375	(2,876)	13,728	25,125	(11,397)
Total 7000 · Grants Expense	295,717	300,042	(4,325)	318,946	900,126	(581,180)
Net Income	(77,628)	163,465	(241,094)	1,248,971	490,190	758,782

**Las Palmas Medical Plaza
Profit & Loss Budget vs. Actual
July through September 2019**

	MONTH			TOTAL		
	Sep 19	Budget	\$ Over Budget	Jul - Sep 19	Budget	\$ Over Budget
Income						
4500 · LPMP Income						
4505 · Rental Income	71,890	72,900	(1,010)	213,965	218,700	(4,735)
4510 · CAM Income	28,014	28,500	(486)	83,394	85,500	(2,106)
4513 · Misc. Income	-	100	(100)	-	100	(100)
Total 4500 · LPMP Income	99,904	101,500	(1,596)	297,358	304,300	(6,942)
6445 · LPMP Expenses						
6420 · Insurance Expense	1,879	1,083	796	5,638	3,250	2,388
6425 · Building - Depreciation Expense	21,484	21,667	(182)	64,453	65,000	(547)
6426 · Tenant Improvements -Dep Exp	15,914	17,083	(1,169)	47,743	51,250	(3,507)
6427 · HVAC Maintenance Expense	3,620	1,333	2,286	3,899	4,000	(102)
6428 · Roof Repairs Expense	-	208	(208)	-	625	(625)
6431 · Building -Interior Expense	-	833	(833)	1,600	2,500	(900)
6432 · Plumbing -Interior Expense	-	333	(333)	-	1,000	(1,000)
6433 · Plumbing -Exterior Expense	-	208	(208)	-	625	(625)
6434 · Allocation Internal Prop. Mgmt	5,085	5,084	0	15,254	15,253	0
6435 · Bank Charges	1,080	1,042	38	3,238	3,125	113
6437 · Utilities -Vacant Units Expense	39	208	(170)	79	625	(546)
6439 · Deferred Maintenance Repairs Ex	-	500	(500)	-	1,500	(1,500)
6440 · Professional Fees Expense	10,117	10,472	(355)	36,616	31,415	5,201
6441 · Legal Expense	-	83	(83)	-	250	(250)
6458 · Elevators - R & M Expense	1,547	1,000	547	3,319	3,000	319
6460 · Exterminating Service Expense	360	417	(57)	360	1,250	(890)
6463 · Landscaping Expense	-	833	(833)	-	2,500	(2,500)
6467 · Lighting Expense	-	833	(833)	-	2,500	(2,500)
6468 · General Maintenance Expense	-	83	(83)	-	250	(250)
6471 · Marketing-Advertising	-	1,417	(1,417)	-	4,250	(4,250)
6475 · Property Taxes Expense	6,000	6,008	(8)	18,000	18,025	(25)
6476 · Signage Expense	-	125	(125)	-	375	(375)
6480 · Rubbish Removal Medical Waste E	1,518	1,442	76	2,967	4,325	(1,358)
6481 · Rubbish Removal Expense	2,227	2,250	(23)	6,680	6,750	(70)
6482 · Utilities/Electricity/Exterior	578	625	(47)	1,089	1,875	(786)
6484 · Utilities - Water (Exterior)	562	708	(147)	1,700	2,125	(425)
6485 · Security Expenses	8,020	6,417	1,603	20,757	19,250	1,507
6490 · Miscellaneous Expense	-	100	(100)	1,500	300	1,200
Total 6445 · LPMP Expenses	80,028	82,398	(2,370)	234,891	247,193	(12,302)
Net Income	19,876	19,102	774	62,467	57,107	5,361

Desert Healthcare District
Balance Sheet
As of September 30, 2019

			Sep 30, 19
ASSETS			
Current Assets			
	Checking/Savings		
		1000 · CHECKING CASH ACCOUNTS	471,250
		1100 · INVESTMENT ACCOUNTS	58,618,941
	Total Checking/Savings		59,090,190
	Accounts Receivable		73,874
	Other Current Assets		
		1270 · Prepaid Insurance -Ongoing	35,437
		1279 · Pre-Paid Fees	24,498
		1281 · NEOPB Receivable	19,730
		1295 · Property Tax Receivable	1,630,428
	Total Other Current Assets		1,710,093
	Total Current Assets		60,874,157
	Fixed Assets		
		1300 · FIXED ASSETS	4,902,688
		1335-00 · ACC DEPR	(1,864,144)
		1400 · LPMP Assets	7,117,231
	Total Fixed Assets		10,155,774
	Other Assets		
		1700 · OTHER ASSETS	2,867,136
	TOTAL ASSETS		73,897,067
LIABILITIES & EQUITY			
	Liabilities		
	Current Liabilities		
	Accounts Payable		
		2000 · Accounts Payable	3,910
		2001 · LPMP Accounts Payable	13,824
	Total Accounts Payable		17,733
	Other Current Liabilities		
		2002 · LPMP Property Taxes	18,000
		2131 · Grant Awards Payable	6,415,273

Desert Healthcare District
Balance Sheet
As of September 30, 2019

				Sep 30, 19
			2133 · Accrued Accounts Payable	272,490
			2141 · Accrued Vacation Time	26,961
			2188 · Current Portion - LTD	11,103
			2190 · Investment Fees Payable	27,000
			Total Other Current Liabilities	6,770,827
			Total Current Liabilities	6,788,560
			Long Term Liabilities	
			2170 · RPP - Pension Liability	3,425,623
			2171 · RPP-Deferred Inflows-Resources	1,643,743
			2280 · Long-Term Disability	40,626
			2281 · Grants Payable - Long-term	5,400,000
			2286 · Retirement BOD Medical Liabilit	85,091
			2290 · LPMP Security Deposits	57,098
			Total Long Term Liabilities	10,652,181
			Total Liabilities	17,440,740
			Equity	
			3900 · *Retained Earnings	55,207,356
			Net Income	1,248,971
			Total Equity	56,456,327
			TOTAL LIABILITIES & EQUITY	73,897,067

Desert Healthcare District
Balance Sheet
As of September 30, 2019

				Sep 30, 19
ASSETS				
Current Assets				
Checking/Savings				
1000 · CHECKING CASH ACCOUNTS				
		1010 · Union Bank - Checking		255,434
		1046 · Las Palmas Medical Plaza		215,316
		1047 · Petty Cash		500
Total 1000 · CHECKING CASH ACCOUNTS				471,250
1100 · INVESTMENT ACCOUNTS				
		1130 · Facility Replacement Fund		58,289,477
		1135 · Unrealized Gain(Loss) FRF		329,464
Total 1100 · INVESTMENT ACCOUNTS				58,618,941
Total Checking/Savings				59,090,190
Accounts Receivable				
1201 · Accounts Receivable				
		1204 · LPMP Accounts Receivable		(10,009)
		1205 · Misc. Accounts Receivable		2,250
		1211 · A-R Foundation - Exp Allocation		81,633
Total 1201 · Accounts Receivable				73,874
Other Current Assets				
		1270 · Prepaid Insurance -Ongoing		35,437
		1279 · Pre-Paid Fees		24,498
		1281 · NEOPB Receivable		19,730
		1295 · Property Tax Receivable		1,630,428
Total Other Current Assets				1,710,093
Total Current Assets				60,874,157
Fixed Assets				
1300 · FIXED ASSETS				
		1310 · Computer Equipment		83,557
		1315 · Computer Software		68,770
		1320 · Furniture and Fixtures		33,254
		1325 · Offsite Improvements		300,849
		1331 · DRMC - Parking lot		4,416,257

Desert Healthcare District
Balance Sheet
As of September 30, 2019

		Sep 30, 19
Total 1300 · FIXED ASSETS		4,902,688
1335-00 · ACC DEPR		
	1335 · Accumulated Depreciation	(205,439)
	1336 · Acc. Software Depreciation	(68,770)
	1337 · Accum Deprec- Solar Parking Lot	(1,462,155)
	1338 · Accum Deprec - LPMP Parking Lot	(127,780)
Total 1335-00 · ACC DEPR		(1,864,144)
1400 · LPMP Assets		
	1401 · Building	8,705,680
	1402 · Land	2,165,300
	1403 · Tenant Improvements -New	2,188,403
	1404 · Tenant Improvements - CIP	129,550
	1406 · Building Improvements	
	1406.1 · LPMP-Replace Parking Lot	676,484
	1406 · Building Improvements - Other	1,559,534
Total 1406 · Building Improvements		2,236,018
	1407 · Building Equipment Improvements	364,891
	1409 · Accumulated Depreciation	
	1410 · Accum. Depreciation	(7,231,967)
	1412 · T I Accumulated Dep.-New	(1,440,644)
Total 1409 · Accumulated Depreciation		(8,672,611)
Total 1400 · LPMP Assets		7,117,231
Total Fixed Assets		10,155,774
Other Assets		
1700 · OTHER ASSETS		
	1731 · Wellness Park	1,693,800
	1740 · RPP-Deferred Outflows-Resources	1,159,189
	1741 · OPEB-Deferred Outflows-Resourc	14,147
Total 1700 · OTHER ASSETS		2,867,136
TOTAL ASSETS		73,897,067
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		

Desert Healthcare District
Balance Sheet
As of September 30, 2019

		Sep 30, 19
	Accounts Payable	
	2000 · Accounts Payable	3,910
	2001 · LPMP Accounts Payable	13,824
	Total Accounts Payable	17,733
	Other Current Liabilities	
	2002 · LPMP Property Taxes	18,000
	2131 · Grant Awards Payable	6,415,273
	2133 · Accrued Accounts Payable	272,490
	2141 · Accrued Vacation Time	26,961
	2188 · Current Portion - LTD	11,103
	2190 · Investment Fees Payable	27,000
	Total Other Current Liabilities	6,770,827
	Total Current Liabilities	6,788,560
	Long Term Liabilities	
	2170 · RPP - Pension Liability	3,425,623
	2171 · RPP-Deferred Inflows-Resources	1,643,743
	2280 · Long-Term Disability	40,626
	2281 · Grants Payable - Long-term	5,400,000
	2286 · Retirement BOD Medical Liabilit	85,091
	2290 · LPMP Security Deposits	57,098
	Total Long Term Liabilities	10,652,181
	Total Liabilities	17,440,740
	Equity	
	3900 · *Retained Earnings	55,207,356
	Net Income	1,248,971
	Total Equity	56,456,327
	TOTAL LIABILITIES & EQUITY	73,897,067

**Desert Healthcare District
A/R Aging Summary
As of September 30, 2019**

	Current	1 - 30	31 - 60	61 - 90	> 90	TOTAL	
Desert Healthcare Foundation-	28,237	27,395	-	26,002	-	81,633	Due from Foundation
Laboratory Corporation of America	-	(4,774)	-	-	-	(4,774)	Prepaid
Sovereign	750	750	-	750	-	2,250	Slow Pay
Steven Gundry, M.D.	-	-	(5,235)	-	-	(5,235)	Prepaid
TOTAL	28,987	23,371	(5,235)	26,752	-	73,874	

Desert Healthcare District
Deposit Detail
September 2019

Type	Date	Name	Amount
Deposit	09/04/2019		1,749
		T-Mobile	(1,749)
TOTAL			(1,749)
Deposit	09/11/2019		750
Payment	09/11/2019	Sovereign	(750)
TOTAL			(750)
		TOTAL	2,499

DESERT HEALTHCARE DISTRICT
PROPERTY TAX RECEIPTS FY 2019 - 2020
RECEIPTS - TWELVE MONTHS ENDED JUNE 30, 2020

	FY 2018-2019 Projected/Actual					FY 2019-2020 Projected/Actual				
	Budget %	Budget \$	Act %	Actual Receipts	Variance	Budget %	Budget \$	Act %	Actual Receipts	Variance
July	2.5%	\$ 165,105	1.3%	\$ 87,106	\$ (77,998)	2.5%	\$ 168,407	0.0%	\$ -	\$ (168,407)
Aug	1.6%	\$ 105,667	1.3%	\$ 88,674	\$ (16,993)	1.6%	\$ 107,780	3.1%	\$ 207,292	\$ 99,512
Sep	2.6%	\$ 171,709	2.4%	\$ 155,626	\$ (16,083)	2.6%	\$ 175,143	0.0%	\$ -	\$ (175,143)
Oct	0.0%	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	0.0%		
Nov	0.4%	\$ 26,417	0.0%	\$ -	\$ (26,417)	0.4%	\$ 26,945	0.0%		
Dec	16.9%	\$ 1,116,106	17.8%	\$ 1,177,161	\$ 61,054	16.9%	\$ 1,138,429	0.0%		
Jan	31.9%	\$ 2,106,733	19.7%	\$ 1,299,278	\$ (807,456)	31.9%	\$ 2,148,868	0.0%		
Feb	0.0%	\$ -	13.9%	\$ 918,846	\$ 918,846	0.0%	\$ -	0.0%		
Mar	0.3%	\$ 19,813	0.7%	\$ 44,532	\$ 24,719	0.3%	\$ 20,209	0.0%		
Apr	5.5%	\$ 363,230	5.9%	\$ 392,745	\$ 29,515	5.5%	\$ 370,495	0.0%		
May	19.9%	\$ 1,314,232	20.3%	\$ 1,341,271	\$ 27,039	19.9%	\$ 1,340,517	0.0%		
June	18.4%	\$ 1,215,169	22.3%	\$ 1,470,000	\$ 254,830	18.4%	\$ 1,239,473	0.0%		
Total	100%	\$ 6,604,180	105.6%	\$ 6,975,238	\$ 371,058	100.00%	\$ 6,736,264	3.1%	\$ 207,292	\$ (244,038)

**Las Palmas Medical Plaza
Deposit Detail - LPMP
September 2019**

Type	Date	Name	Amount
Deposit	09/03/2019		3,854
Payment	09/03/2019	Quest Diagnostics Incorporated	(3,854)
TOTAL			(3,854)
Deposit	09/05/2019		42,041
Payment	09/05/2019	Cohen Musch Thomas Medical Group	(3,543)
Payment	09/05/2019	Desert Regional Medical Center	(4,903)
Payment	09/05/2019	Tenet HealthSystem Desert, Inc.	(28,052)
Payment	09/05/2019	Tenet HealthSystem Desert, Inc	(5,543)
TOTAL			(42,041)
Deposit	09/05/2019		24,233
Payment	09/05/2019	Derakhsh Fozouni, M.D.	(5,841)
Payment	09/05/2019	Palmtree Clinical Research	(6,217)
Payment	09/05/2019	Ramy Awad, M.D.	(3,180)
Payment	09/05/2019	Aijaz Hashmi, M.D., Inc.	(2,745)
Payment	09/05/2019	Brad A. Wolfson, M.D.	(3,354)
Payment	09/05/2019	Cure Cardiovascular Consultants	(2,898)
TOTAL			(24,233)
Deposit	09/06/2019		2,997
Payment	09/06/2019	Peter Jamieson, M.D.	(2,997)
TOTAL			(2,997)
Deposit	09/09/2019		2,249
Payment	09/09/2019	Pathway Pharmaceuticals, Inc.	(2,249)

Las Palmas Medical Plaza
Deposit Detail - LPMP
September 2019

Type	Date	Name	Amount
TOTAL			(2,249)
Deposit	09/16/2019		2,738
Payment	09/16/2019	Dennis Spurgin, D.C.	(2,738)
TOTAL			(2,738)
Deposit	09/19/2019		3,493
Payment	09/19/2019	Desert Family Medical Center	(3,493)
TOTAL			(3,493)
Deposit	09/23/2019		4,774
Payment	09/23/2019	Laboratory Corporation of America	(4,774)
TOTAL			(4,774)
		TOTAL	86,380

Desert Healthcare District
Check Register
As of September 30, 2019

Type	Date	Num	Name	Amount
1000 · CHECKING CASH ACCOUNTS				
1010 · Union Bank - Checking				
Liability Check	09/05/2019		QuickBooks Payroll Service	(34,453)
Check	09/06/2019	Auto Pay	Calif. Public Employees'Retirement System	(8,716)
General Journal	09/06/2019	03-02	401a payment - 9/6/19 payroll	(1,702)
General Journal	09/06/2019	03-02	457b payment - 9/6/19 payroll	(2,516)
General Journal	09/10/2019	03-03	September 2019 LTD Payment - Jena Marie Van Earl	(1,234)
Bill Pmt -Check	09/10/2019	15614	First Bankcard (Union Bank)	(5,052)
Bill Pmt -Check	09/10/2019	15615	Bendani Publishing	(250)
Bill Pmt -Check	09/10/2019	15616	City of Desert Hot Springs	(710)
Bill Pmt -Check	09/10/2019	15617	Donna Den Bleyker.	(190)
Bill Pmt -Check	09/10/2019	15618	First Bankcard (Union Bank)	(5,049)
Bill Pmt -Check	09/10/2019	15619	Leticia De Lara - VOID	-
Bill Pmt -Check	09/10/2019	15620	Mangus Accountancy Group, A.P.C.	(500)
Bill Pmt -Check	09/10/2019	15621	Moss, Levy & Hartzheim LLP	(10,500)
Bill Pmt -Check	09/10/2019	15622	Palm Desert Chamber of Commerce	(225)
Bill Pmt -Check	09/10/2019	15623	So.Cal Computer Shop	(810)
Bill Pmt -Check	09/10/2019	15624	State Compensation Insurance Fund	(180)
Bill Pmt -Check	09/10/2019	15625	Time Warner Cable	(240)
Bill Pmt -Check	09/10/2019	15626	Underground Service Alert of Southern Cal	(10)
Bill Pmt -Check	09/10/2019	15627	Vanessa Smith-	(33)
Bill Pmt -Check	09/10/2019	15628	Verizon Wireless	(694)
Bill Pmt -Check	09/10/2019	15629	Zendle, Les- Aug 2019 Stipend & Mileage	(130)
Bill Pmt -Check	09/10/2019	15630	So.Cal Computer Shop	(275)
Bill Pmt -Check	09/18/2019	15631	KaufmanHall	(124,193)
Bill Pmt -Check	09/18/2019	15632	Law Offices of Scott & Jackson	(15,188)
Bill Pmt -Check	09/18/2019	15633	Leticia De Lara - Aug 2019 Stipend	(200)
Bill Pmt -Check	09/18/2019	15634	Rauch Communication Consultants	(3,614)
Bill Pmt -Check	09/18/2019	15635	So.Cal Computer Shop	(298)
Bill Pmt -Check	09/18/2019	15636	Staples Credit Plan	(2,940)
Bill Pmt -Check	09/18/2019	15637	State Compensation Insurance Fund	(619)
Bill Pmt -Check	09/18/2019	15638	Tri-Star Risk Management	(736)
Bill Pmt -Check	09/18/2019	15639	Xerox Financial Services	(394)
Liability Check	09/19/2019		QuickBooks Payroll Service	(34,588)
Bill Pmt -Check	09/19/2019	15640	Andrea S. Hayles-	(138)

Desert Healthcare District
Check Register
As of September 30, 2019

Type	Date	Num	Name	Amount
Bill Pmt -Check	09/19/2019	15641	Chris Christensen	(1,862)
Bill Pmt -Check	09/19/2019	15642	Del Valle Informador Inc	(400)
Bill Pmt -Check	09/19/2019	15643	Palms to Pines Printing	(452)
Bill Pmt -Check	09/19/2019	15644	Principal Life Insurance Co.	(1,453)
General Journal	09/20/2019	03-07	401a payment - 9/20/19 payroll	(1,709)
General Journal	09/20/2019	03-07	457b payment - 9/20/19 payroll	(2,522)
Check	09/25/2019		Service Charge	(562)
Bill Pmt -Check	09/26/2019	15645	Andrea S. Hayles-	(113)
Bill Pmt -Check	09/26/2019	15646	Chris Christensen	(245)
Bill Pmt -Check	09/26/2019	15647	CoPower Employers' Benefits Alliance	(2,182)
Bill Pmt -Check	09/26/2019	15648	Loma Linda University	(2,508)
Bill Pmt -Check	09/26/2019	15649	Meghan Kane	(494)
Bill Pmt -Check	09/26/2019	15650	Palms to Pines Printing	(3,453)
Bill Pmt -Check	09/26/2019	15651	Regional Access Project Foundation	(550)
Bill Pmt -Check	09/26/2019	15652	Shred-It	(93)
Bill Pmt -Check	09/26/2019	15653	Top Shop	(347)
General Journal	09/30/2019	03-10	Record Medical Reimb - September 2019	(577)
TOTAL				(275,897)

Las Palmas Medical Plaza
Check Register
As of September 30, 2019

Type	Date	Num	Name	Amount
1000 · CHECKING CASH ACCOUNTS				
1046 · Las Palmas Medical Plaza				
Bill Pmt -Check	09/04/2019	10063	INPRO-EMS Construction	(10,117)
Bill Pmt -Check	09/10/2019	10064	Aijaz Hashmi, MD	(950)
Bill Pmt -Check	09/10/2019	10065	Desert Air Conditioning Inc.	(15,380)
Bill Pmt -Check	09/10/2019	10066	Desert Water Agency	(522)
Bill Pmt -Check	09/10/2019	10067	Imperial Security	(6,290)
Bill Pmt -Check	09/10/2019	10068	Palm Springs Disposal Services Inc	(2,227)
Bill Pmt -Check	09/10/2019	10069	Stericycle, Inc.	(1,518)
Bill Pmt -Check	09/10/2019	10070	Desert Air Conditioning Inc.	(2,398)
Bill Pmt -Check	09/18/2019	10071	Desert Air Conditioning Inc.	(70)
Bill Pmt -Check	09/18/2019	10072	Frazier Pest Control, Inc.	(360)
Bill Pmt -Check	09/18/2019	10073	Milauskas Eye Institute Medical Group -	(19,362)
Bill Pmt -Check	09/26/2019	10074	Amtech Elevator Services	(1,322)
Bill Pmt -Check	09/26/2019	10075	Frontier Communications	(225)
Bill Pmt -Check	09/26/2019	10076	Imperial Security	(1,730)
Bill Pmt -Check	09/26/2019	10077	Southern California Edison	(617)
Check	09/30/2019		Service Charge	(1,080)
TOTAL				(64,166)



MEMORANDUM

DATE: October 8, 2019

TO: F&A Committee

RE: Retirement Protection Plan (RPP)

Current number of participants in Plan:

Active – still employed by hospital	111
Vested – no longer employed by hospital	60
Former employees receiving annuity	<u>8</u>
Total	<u>179</u>

The outstanding liability for the RPP is approximately **\$4.2M** (Actives - \$2.9M and Vested - \$1.3M). US Bank investment account balance \$4.9M. Per the June 30, 2019 Actuarial Valuation, the RPP has an Unfunded Pension Liability of approximately **\$3.4M**. A monthly accrual of \$10K is being recorded each month as an estimate for FY2020.

The payouts, excluding monthly annuity payments, made from the Plan for the Three (3) months ended September 30, 2019 totaled **\$50K**. Monthly annuity payments (8 participants) total **\$1.03K** per month.

DESERT HEALTHCARE DISTRICT						
OUTSTANDING GRANTS AND GRANT PAYMENT SCHEDULE						
As of 9/30/19						
TWELVE MONTHS ENDED JUNE 30, 2020						
Grant ID Nos.	Name	Approved Grants - Prior Yrs	Current Yr 2019-2020	6/30/2019 Bal Fwd/New	Total Paid July-June	Open BALANCE
2014-MOU-BOD-11/21/13	Memo of Understanding CVAG CV Link Support	\$ 10,000,000		\$ 10,000,000	\$ -	\$ 10,000,000
2015-876-BOD-6-23-15	Arrowhead Neuroscience Fndtn-NeuroInterventional & NeuroCritical Care Fellowship 2 Yr	\$ 373,540		\$ 37,354	\$ -	\$ 37,354
2016-927-BOD-12-20-16	SafeHouse of the Desert - "What's Up" Crisis Texting Application - 3 Yr	\$ 679,357		\$ 169,839	\$ 101,904	\$ 67,935
2017-938-BOD-07-25-17	Mizell Senior Center - A Matter of Balance Phase 2 - 2 Yr	\$ 400,300		\$ 40,030	\$ -	\$ 40,030
2018-960-BOD-02-27-18	Desert Cancer Foundation - Patient Assistance and Suzanne Jackson Breast Cancer	\$ 200,000		\$ 20,000	\$ -	\$ 20,000
2018-967-BOD-05-22-18	The City of DHS-Public Safety Emergency Response Program - Purchase AEDs	\$ 30,000		\$ 3,000	\$ 710	\$ 2,290
	Unexpended funds of Grant #967 (\$2,290.34 10% Retention)				\$ -	\$ (2,290)
2018-974-BOD-09-25-18	HARC - 2019 Coachella Valley Community Health Survey - 2 Yr	\$ 399,979		\$ 219,989	\$ -	\$ 219,989
2018-980-BOD-10-23-18	Joslyn Wellness Senior Behavioral Health Services Program - 1 Yr	\$ 112,050		\$ 11,205	\$ -	\$ 11,205
2018-981-BOD-10-23-18	Desert Arc Healthcare Program - 1 Yr	\$ 164,738		\$ 16,474	\$ -	\$ 16,474
2018-979-BOD-11-27-18	FIND Food Bank - Healthy Food First/Pathways Out of Hunger - 1 Yr	\$ 396,345		\$ 217,989	\$ 89,178	\$ 128,811
2019-985-BOD-03-26-19	Coachella Valley Volunteers in Medicine - Primary Healthcare & Support Services - 1 Yr	\$ 121,500		\$ 66,825	\$ -	\$ 66,825
2019-986-BOD-05-28-19	Ronald McDonald House Charities - Temporary Housing & Family Support Services - 1 Yr	\$ 200,000		\$ 200,000	\$ 90,000	\$ 110,000
2019-997-BOD-05-28-19	Martha's Village & Kitchen - Homeless Housing With Wrap Around Services - 1 Yr	\$ 200,896		\$ 110,493	\$ -	\$ 110,493
2019-989-BOD-05-28-19	Pegasus Riding Academy - Cover the Hard Costs of Pegasus Clients - 1 Yr	\$ 109,534		\$ 60,244	\$ -	\$ 60,244
2019-994-BOD-05-28-19	One Future Coachella Valley - Mental Health College & Career Pathway Development - 2 Yr	\$ 700,000		\$ 621,250	\$ -	\$ 621,250
2019-995-BOD-05-28-19	One Future Coachella Valley - HCC Summer Intern at DHCD/F & FIND Food Bank	\$ 14,628		\$ 1,463	\$ -	\$ 1,463
2019-1000-BOD-05-28-19	Voices for Children - Court Appointed Special Advocate Program - 1 Yr	\$ 24,000		\$ 13,200	\$ -	\$ 13,200
2019-1006-BOD-06-25-19	Desert Healthcare Foundation - Homelessness Initiative Collective Fund	\$ 1,000,000		\$ 1,000,000	\$ 1,000,000	\$ -
2019-1017-BOD-09-24-19	Jewish Family Services - Case Management Services for Homeless Prevention - 1 Yr		\$ 90,000	\$ 90,000	\$ -	\$ 90,000
2019-1025-BOD-09-24-19	Desert Healthcare Foundation - Ready Set Swim - 1 Yr		\$ 200,000	\$ 200,000	\$ -	\$ 200,000
				\$ -	\$ -	\$ -
TOTAL GRANTS		\$ 15,126,867	\$ 290,000	\$ 13,099,355	\$ 1,281,792	\$ 11,815,273
Amts available/remaining for Grant/Programs - FY 2019-20:						
Amount budgeted 2019-2020			\$ 3,500,000		G/L Balance:	9/30/2019
Amount granted through June 30, 2020:			\$ (290,000)		2131	\$ 6,415,273
Mini Grants:	1009; 1015; 1019; 1016		\$ (17,508)		2281	\$ 5,400,000
Net adj - Grants not used:	967		\$ 2,290		Total	\$ 11,815,273
Balance available for Grants/Programs			\$ 3,194,782		Difference - Rdg	\$ 0

**DESERT HEALTHCARE DISTRICT,
DESERT HEALTHCARE FOUNDATION AND
DESERT HOSPITAL RETIREMENT PLAN**

**MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER**

JUNE 30, 2019

**DESERT HEALTHCARE DISTRICT,
DESERT HEALTHCARE FOUNDATION AND
DESERT HOSPITAL RETIREMENT PLAN**

JUNE 30, 2019

TABLE OF CONTENTS

Management/Transmittal Letter 1

**Required Communication in Accordance with
Statement on Auditing Standards No. 114..... 2**

Current Year Recommendation 5

Status of Prior Year Recommendation 6

**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards 7**



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

In planning and performing our audit of the financial statements of the Desert Healthcare District, Desert Healthcare Foundation and Desert Hospital Retirement Plan (the entities), as of and for the fiscal year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the entities' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we do not express an opinion on the effectiveness of the entities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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

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

During our audit, we noted no matters involving internal controls and their operations that are required to be reported under Government Auditing Standards, except for a potential of inadequate segregation of duties due to the small staff of the entities. This appears to be mitigated by the strong oversight of the Board of Directors in the operations of the entities.

We have included in this letter a summary of communications with the members of the Board of Directors as required by professional auditing standards. We would like to thank the entities' management and staff for the courtesy and cooperation extended to us during the course of our engagement.

The accompanying communications and recommendations are intended solely for the information and use of management, the members of the Board of Directors, and others within the entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
October 1, 2019



MOSS, LEVY & HARTZHEIM LLP

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

We have audited the financial statements of the financial statements of the Desert Healthcare District, Desert Healthcare Foundation and Desert Hospital Retirement Plan (the entities) of the entities for the fiscal year ended June 30, 2019, and have issued our report thereon dated October 1, 2019. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated May 21, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the entities are described in Note 1 of the notes to the basic financial statements.

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the estimated historical cost and useful lives of certain capital assets, the net fair market value of the charitable remainder trusts, the funding progress of the District’s RPP plan and OPEB plan, and the estimate of an allowance for uncollectable receivables. Management’s estimates of the estimated historical cost and useful lives of certain capital assets are based on historical data and industry guidelines, while the funding progress of the RPP plan and OPEB plan, and are based on consultants’ estimates. The amount of estimated allowance for uncollectable receivables is based on historical data. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The estimates for the Defined Benefit Pension Plan are in the footnotes to the financial statements.
- The estimates for the OPEB Plan are in the footnotes to the financial statements.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 1, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the entities' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

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

Restriction on Use

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
October 1, 2019

CURRENT YEAR RECOMMENDATIONS

Other Matters

None

STATUS OF PRIOR YEAR RECOMMENDATION

None



MOSS, LEVY & HARTZHEIM LLP

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business activities, the fiduciary fund financial statements of the Desert Healthcare District, and the financial statements of the Desert Healthcare Foundation and Desert Hospital Retirement Plan (the entities), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the entities' basic financial statements, and have issued our report thereon dated October 1, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
October 1, 2019

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

DESERT HEALTHCARE DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Business-type Activities:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	12
Statement of Changes in Fiduciary Net Position	13
Notes to Financial Statements	14
Required Supplementary Information	38



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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the business type activities and the fiduciary fund financial statements of the Desert Healthcare District (District) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the fiduciary fund financial statements of the District as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the Schedule of Changes in the Net Pension Liability and Related Ratios on page 38, and the Schedule of Changes in the Net OPEB Liability and Related Ratios on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Report on Comparative Summarized Information

We have previously audited the District's 2018 financial statements, and our report dated October 1, 2018 expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2018, is consistent, in all material respects, with the audited financial from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2019, on our consideration of Desert Healthcare District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Desert Healthcare District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
October 1, 2019

DESERT HEALTHCARE DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 2019 AND 2018

The Desert Healthcare District (the District) has issued its financial statements for the fiscal years ended June 30, 2019 and June 30, 2018 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). This report, Management’s Discussion and Analysis, is an overview of the financial activities for the fiscal years and is an integral part of the accompanying Basic Financial Statements.

ACCOUNTING METHOD

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

THE BASIC FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ACTIVITIES & FISCAL YEAR 2019 HIGHLIGHTS

Desert Healthcare District (“the District”) is a government entity operating under the Local Health Care District Law. The District was created by the state of California in 1948 for the purpose of providing hospital services to the residents of the District. The District was responsible for building Desert Hospital, now known as Desert Regional Medical Center. In 1997, the Board of Directors voted to lease the hospital to Tenet Health System Desert, Inc. for 30 years. Since 1997, the District provides funding and access to programs and services to residents of the healthcare district. In November 2019, the District boundaries will expand to include the entire Coachella Valley, more than doubling its population and service area.

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2019 AND 2018

The Statement of Net Position

A condensed version of the Statements of Net Position is presented in Table A below and the changes which occurred between Fiscal Year 2019 and 2018.

	<u>Table A</u>		
Assets:	6/30/2019	6/30/2018	Change
Cash and cash equivalents	\$ 12,052,794	\$ 2,004,735	\$ 10,048,059
Investments	48,228,320	54,326,412	(6,098,092)
Capital assets, net	11,972,558	12,382,164	(409,606)
All Other Assets	249,194	235,775	13,419
Total Assets	\$ 72,502,866	\$ 68,949,086	\$ 3,553,780
Deferred Outflows:			
GASB 68 Reporting for Pension Plans	\$ 1,159,189	\$ 1,057,842	\$ 101,347
GASB 75 Reporting for OPEB Plans	14,147	22,144	(7,997)
Total Deferred Outflows	\$ 1,173,336	\$ 1,079,986	\$ 93,350
Liabilities:			
Grants payable	\$ 12,809,355	\$ 11,654,099	\$ 1,155,256
Net Pension Liability	3,395,623	3,277,793	117,830
All Other Liabilities	620,125	1,920,142	(1,300,017)
Total Liabilities	\$ 16,825,103	\$ 16,852,034	\$ (26,931)
Deferred Inflows:			
GASB 68 Reporting for Pension Plans	\$ 1,643,743	\$ 2,222,190	\$ (578,447)
Total Deferred Inflows	\$ 1,643,743	\$ 2,222,190	\$ (578,447)
Net Assets:			
Net investment in capital assets	\$ 11,972,558	\$ 12,382,164	\$ (409,606)
Unrestricted	43,234,798	38,572,684	4,662,114
Restricted	-	-	-
Total Net Position	\$ 55,207,356	\$ 50,954,848	\$ 4,252,508

The \$4,252,508 increase in Total Net Position is due to the net income of \$4,252,508 for the current fiscal year ended June 30, 2019. This compares to a net loss of \$312,527 for the fiscal year ended June 30, 2018. The increase is primarily due to a net combination of increased property tax revenue of \$412,396, decreased grant expenses of \$1,449,168, decreased professional fees of \$509,000, and increased investment income of \$2,139,260 (due to better return on the investments). The \$10,048,059 increase in Cash and cash equivalents and \$6,098,092 decrease in Investments is due primarily to increase in Cash and cash equivalents in the Investment account. The \$409,606 decrease in Capital Assets is due primarily to depreciation of capital assets. The \$101,347 increase in Deferred Outflows is due to timing difference in the actuarial valuation for GASB 68 reporting for the Retirement Protection Plan (RPP). The \$1,155,256 increase in Grants Payable is due primarily to lower grant disbursements than new accrued grants. The \$117,830 increase in Net Pension Liability is due primarily to a change in actuarial assumptions. The \$1,300,017 decrease in All Other Liabilities is due primarily to a \$1,000,000 transfer to the Foundation paid in 2019. The \$578,447 decrease in Deferred Inflows is due to a timing difference in the actuarial valuation for GASB 68 reporting for the RPP.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2019 AND 2018

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

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

- Revenues – The District receives from the County of Riverside an apportionment of the property taxes paid by the residents of the District. Additional revenues include, the investment income the District receives from the Facility Replacement Fund, which was established to provide working capital in the event that the lease with Tenet Health System Desert, Inc. is terminated prematurely or for future seismic retrofit needs; and rental income from the Las Palmas Medical Plaza which is owned and managed by the District.

- Grant Program – The District administers a grant and preventative health initiatives programs that donate a significant portion of the District's annual property tax revenues to health-related programs serving residents of Desert Hot Springs, Thousand Palms, Palm Springs, Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Indio, Coachella, Thermal, Mecca, North Shore, and unincorporated areas of the County that are within the District's boundaries.

Table B, below, is a condensed version of the Statements of Revenues, Expenses, and Changes in Net Position; it summarizes the District's revenue and expenses, and compares Fiscal Year 2019 results to Fiscal Year 2018.

Table B

	6/30/19	6/30/18	Change
Revenue:			
Property Tax Revenue	\$ 6,972,196	\$ 6,559,800	\$ 412,396
Rental income	1,203,940	1,113,241	90,699
All other income	124,961	166,904	(41,944)
Total Revenue	\$ 8,301,097	\$ 7,839,945	\$ 461,152
Expenses:			
Grants program	\$ 3,626,871	\$ 5,076,039	\$ (1,449,168)
Administrative Expense	2,552,978	3,068,696	(515,718)
Total Expense	\$ 6,179,849	\$ 8,144,735	\$ (1,964,886)
Nonoperating Income(Expenses)	\$ 2,131,260	\$ (7,737)	2,138,997
Net Income (Loss)	\$ 4,252,508	\$ (312,527)	\$ 4,565,035

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2019 AND 2018

Revenue

Property taxes are the District's primary source of operating revenues. The property tax revenue for the fiscal year ended June 30, 2019 was \$6,972,196, which was an increase of \$412,396 from the fiscal year ended June 30, 2018.

Rental income of \$1,203,940 for the fiscal year ended June 30, 2019 was \$90,699 higher than the fiscal year ended June 30, 2018.

All other income for the fiscal year ended June 30, 2019 decreased \$41,944 compared to the fiscal year ended June 30, 2018. The decrease was due primarily to a decrease in NEOPB grant income and solar rebate.

Expenses

Grant Program expense for the fiscal year ended June 30, 2019 decreased by \$1,449,168 compared to the fiscal year ended June 30, 2018. This is due primarily to decreased approved grants. Grants are recorded in the fiscal year that they are approved by the District's Board of Directors.

Administrative expenses for the fiscal year ended June 30, 2019 decreased \$515,718 from the fiscal year ended June 30, 2018. The decrease is due to various expenses including lower professional fees expense of \$649,285 for consulting services for expansion & future planning; and higher election fees expense of \$109,347.

CAPITAL ASSETS

At June 30, 2019, the District had \$22,348,945 in capital assets and \$10,376,387 accumulated depreciation, resulting in \$11,972,558 net capital assets. At June 30, 2018, the District had \$22,121,177 in capital assets and \$9,739,013 in accumulated depreciation, resulting in \$12,382,164 net capital assets.

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

Table C

	Balance 6/30/17	Net Additions	Net Retirements	Balance 6/30/18	Net Additions	Net Retirements	Balance 6/30/19
Cost	\$ 21,939,868	\$ 233,243	\$ (51,934)	\$ 22,121,177	\$ 230,526	\$ (2,758)	\$ 22,348,945
Acc. Depreciation	(9,147,084)	(643,863)	51,934	(9,739,013)	(639,405)	2,032	(10,376,387)
Capital Assets, Net	\$ 12,792,784	\$ (410,620)	\$ -	\$ 12,382,164	\$ (408,879)	\$ (726)	\$ 11,972,558

DEBT ADMINISTRATION

The District has no outstanding debt.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 2019 AND 2018

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Fiscal Year 2020 budget reflects revenues of \$9,468,414 and operating expenses of \$7,652,114. Capital expenditures are budgeted at \$470,000. The Desert Healthcare District/Foundation adopted a new 3-Year Strategic Plan in fiscal year 2018, with four Community Health Focus Areas: Homelessness; Primary Care and Behavioral Health Access; Healthy Eating and Active Living; and Quality, Safety, Accountability, and Transparency. The District/Foundation continues to work on connecting District residents to programs and services to meet their healthcare needs. In November 2018, the residents of the Eastern Coachella Valley voted to expand the Desert Healthcare District to all cities and unincorporated areas of the Coachella Valley. The expansion more than doubled the population and service area. However, the expansion did not include a funding source. The District will be seeking resources to fund the access to programs and services; and grant funding for the residents of the expanded area.

During the fiscal year ended June 30, 2019, the District awarded \$3,579,670 in new grants and distributed grants in the amount of \$2,369,781. Projected new grants to be awarded for the fiscal year 2019–2020 amount to \$3,500,000 and distributions for grants could possibly total \$13,638,316 due to the existing grant liability as of June 30, 2019 and the projected grant awards.

The District has also established a reserve fund of approximately \$58,000,000 to cover grant liabilities, hospital operating expenses for a short period should the lease with Tenet Health System Desert, Inc. terminate prior to May 30, 2027, and seismic or other related facilities costs.

The Hospital will be required to meet SB 1953 and OSHPD regulations for seismic retrofit standards by 2030. The District is conducting due diligence to assess the seismic retrofit needs and costs, which may be substantial, and reviewing options for timely completion of the seismic upgrades.

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

In July of 2019, Tenet Health Systems submitted a proposal to purchase Desert Regional Medical Center from the Desert Healthcare District. If a transaction (sale or lease) is approved by the Board of Directors, residents of the District will be required to vote approval of the transaction.

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, 2019

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,052,794	\$ 2,004,735
Investments	13,491,775	10,036,100
Accounts receivable - net	193,311	190,048
Prepaid items and deposits	55,883	45,727
Total current assets	<u>25,793,763</u>	<u>12,276,610</u>
NON-CURRENT ASSETS		
Investments	34,736,545	44,290,312
Capital assets, net	11,972,558	12,382,164
Total non-current assets	<u>46,709,103</u>	<u>56,672,476</u>
DEFERRED OUTFLOWS		
Deferred Outflows of Resources:		
Pension plans	1,159,189	1,057,842
OPEB	14,147	22,144
Total deferred outflows of resources	<u>1,173,336</u>	<u>1,079,986</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>73,676,202</u>	<u>70,029,072</u>
CURRENT LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	387,096	1,646,607
Grants payable	7,409,355	1,506,453
Compensated absences	31,110	39,785
Disability claims, reserve, current portion	14,803	14,803
Total current liabilities	<u>7,842,364</u>	<u>3,207,648</u>
NON-CURRENT LIABILITIES		
Grants payable	5,400,000	10,147,646
Long-term disability claims reserve	40,626	51,743
Net pension liability	3,395,623	3,277,793
Net OPEB liability	87,973	108,687
Deposits payable	58,517	58,517
Total non-current liabilities	<u>8,982,739</u>	<u>13,644,386</u>
DEFERRED INFLOWS		
Deferred Inflows of Resources:		
Pension plans	1,643,743	2,222,190
Total deferred inflows of resources	<u>1,643,743</u>	<u>2,222,190</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>18,468,846</u>	<u>19,074,224</u>
NET POSITION		
Net investment in capital assets	11,972,558	12,382,164
Unrestricted	43,234,798	38,572,684
TOTAL NET POSITION	<u>\$ 55,207,356</u>	<u>\$ 50,954,848</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Property taxes	\$ 6,972,196	\$ 6,559,800
Rental income	1,203,940	1,113,241
Other income	125,687	166,904
	<u>8,301,823</u>	<u>7,839,945</u>
OPERATING EXPENSES		
Grant allocations	3,626,871	5,076,039
General expenses	560,859	1,187,283
Rental expenses	941,062	904,904
Salaries and benefits	304,560	329,056
Legal fees	235,836	250,443
Depreciation	193,276	194,483
Other	208,410	199,606
Election fees	109,347	-
Security	353	2,921
	<u>6,180,574</u>	<u>8,144,735</u>
Total expenditures		
	<u>6,180,574</u>	<u>8,144,735</u>
Income (loss) from operations	<u>2,121,249</u>	<u>(304,790)</u>
NONOPERATING INCOME (EXPENSES)		
Investment income	2,245,953	111,318
Loss on disposal of capital assets	(727)	-
Investment expenses	(113,967)	(119,055)
	<u>2,131,259</u>	<u>(7,737)</u>
Total nonoperating income (loss)		
	<u>2,131,259</u>	<u>(7,737)</u>
Increase (decrease) in net position	<u>4,252,508</u>	<u>(312,527)</u>
NET POSITION		
Beginning of fiscal year	50,954,848	51,276,755
Prior period adjustments	-	(9,380)
Net position at beginning of fiscal year, restated	<u>50,954,848</u>	<u>51,267,375</u>
End of fiscal year	<u>\$ 55,207,356</u>	<u>\$ 50,954,848</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, 2019

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from County	\$ 6,975,239	\$ 6,614,964
Cash received from Grantor	79,234	156,209
Cash payments to suppliers for goods and services	(2,879,404)	(766,587)
Cash payments to employees for services and benefits	(899,033)	(814,049)
Cash payments to grantee	(2,471,615)	(5,870,978)
Rental and other operating revenues	1,244,087	1,177,107
Net cash provided by operating activities	<u>2,048,508</u>	<u>496,666</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	<u>(230,526)</u>	<u>(233,243)</u>
Net cash provided (used) by capital and related financing activities	<u>(230,526)</u>	<u>(233,243)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	956	579
Net investment sales (purchases)	<u>8,229,122</u>	<u>309,362</u>
Net cash provided by investing activities	<u>8,230,078</u>	<u>309,941</u>
Net increase in cash	10,048,060	573,364
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	<u>2,004,735</u>	<u>1,431,371</u>
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	<u>\$ 12,052,795</u>	<u>\$ 2,004,735</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	<u>\$ 12,052,794</u>	<u>\$ 2,004,735</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, 2019

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2019</u>	<u>2018</u>
Income (loss) from operations	\$ 2,121,249	\$ (304,790)
Adjustments to reconciliation of income from operations to net cash provided (used) by operating activities:		
Depreciation	639,406	643,863
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Accounts receivable	(3,263)	103,857
Prepaid items and deposits	(10,156)	437
Deferred outflow-pension	(101,347)	176,689
Deferred outflow-OPEB	7,997	443
Net pension liabilities	117,830	393,798
Net OPEB liabilities	(20,714)	(18,530)
Accounts payable and accrued liabilities	(1,259,511)	1,328,753
Grants payable	1,155,256	(794,939)
Deposits payable	-	4,478
Compensated absences	(8,675)	(7,050)
Long-term disability claims reserve	(11,117)	(10,472)
Deferred inflow - pension	(578,447)	(1,019,871)
Net cash provided by operating activities	<u>\$ 2,048,508</u>	<u>\$ 496,666</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, 2019

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	<u>Private- Purpose Trust Fund</u>	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 945,995	\$ 3,447,997
Grants receivable	1,000,000	1,030,829
Prepaid items	3,500	3,540
Accrued interest and dividend receivable	17,732	13,787
Total current assets	<u>1,967,227</u>	<u>4,496,153</u>
OTHER ASSETS		
Contributions receivable - charitable remainder trusts	189,239	188,929
Investments	5,853,791	2,499,286
Total other assets	<u>6,043,030</u>	<u>2,688,215</u>
TOTAL ASSETS	<u>8,010,257</u>	<u>7,184,368</u>
LIABILITIES		
Current liabilities:		
Accounts payable	70,955	83,980
Grants payable - current portion	3,384,450	3,621,167
Total current liabilities	<u>3,455,405</u>	<u>3,705,147</u>
Long-term liabilities:		
Grants payable - long-term	2,260,000	1,200,000
Total long-term liabilities	<u>2,260,000</u>	<u>1,200,000</u>
Total liabilities	<u>5,715,405</u>	<u>4,905,147</u>
NET POSITION	<u>\$ 2,294,852</u>	<u>\$ 2,279,221</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, 2019

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Private-Purpose Trust Fund</u>	
	<u>2019</u>	<u>2018</u>
ADDITIONS		
Contributions	\$ 30,748	\$ 226,403
Grants	1,266,188	5,339,347
Interest and dividends	115,058	65,341
Investment gains and losses	386,648	(49,499)
Change in value - charitable trusts	310	3,506
	<u>1,798,952</u>	<u>5,585,098</u>
DEDUCTIONS		
Grants and services	1,536,658	5,314,610
Management and general	246,663	286,762
	<u>1,783,321</u>	<u>5,601,372</u>
INCREASE (DECREASE) IN NET POSITION	15,631	(16,274)
NET POSITION, BEGINNING OF FISCAL YEAR	<u>2,279,221</u>	<u>2,295,495</u>
NET POSITION, END OF FISCAL YEAR	<u>\$ 2,294,852</u>	<u>\$ 2,279,221</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Each of the five 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 2019, the District expanded its boundaries and service area to encompass the broader Coachella Valley. The District has and continues to assess the healthcare needs of the Coachella Valley. The District makes grants to healthcare providers who provide needed healthcare services.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial Reporting Entity — Continued

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:

- 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.

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

Desert Healthcare Foundation (Foundation)

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

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

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

Basis of Accounting and Measurement Focus

Business-Type Activities

The basic financial statements include a Statement of Net 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.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting and Measurement Focus – Continued

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net 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 Net Position and a Statement of Changes in Fiduciary Net Position. The District's Fiduciary fund includes Private Purpose Trust Funds, which account for resources that are being held for the benefit of the District. The Fiduciary fund is accounted for using the accrual basis of accounting.

Use of Restricted/Unrestricted Net Position

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

Cash, Cash Equivalent and Investments

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

Prepaid Items and Deposits

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets

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

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

Compensated Absences

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

Property Tax

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

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

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

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

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

Income Taxes

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

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates

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

Fair Value Measurement

The District and Foundation apply Generally Accepted Accounting Principles (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 Notes 9 and 14 for a detailed listing of the deferred outflow of resources that the District has recognized.

Pursuant to GASB Statement No. 65, the District recognizes deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of fund balance/net position by the government that is applicable to a future reporting period. Refer to Note 154 for a detailed listing of the deferred inflow of resources that the District has recognized.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The District, as described in Note 1, entered into a thirty (30) year lease agreement for Desert Regional Medical Center (Hospital) with Tenet Health System Desert, Inc. (Tenet). In the event that Tenet or the District decide to terminate the lease, the District would be responsible for operating the Hospital, which would require upfront operating capital of approximately \$125,000,000 to maintain the operations without interruption during the transition period. The District, recognizing this obligation, established an investment fund, with a net value of \$58,231,372 as of June 30, 2019, identified as the Facility Replacement Fund. The lease agreement contains provisions in the event the lease terminates prior to May 30, 2021. If the lease terminates for reasons such as default by the lessor to perform obligations within a sixty day period or the premises are totally destroyed and repairs are not feasible between the dates of June 1, 2018 and May 30, 2021, the District may be obligated to repay Tenet beginning June 1, 2018 the unamortized prepaid rent as defined in the lease agreement which decreases annually through May 2021. However, the District does not expect these conditions to occur during the term of the lease and therefore, recorded the full amount of the payments received to income in fiscal year ended June 30, 1997. The lease agreement was previously amended to allow the District to provide the funding for the cost of preapproved capital improvements that will reduce the amount of the prepaid rent schedule by a ratio of \$3 for each \$1 spent, and in some cases a ratio of \$3.50 for each \$1 spent.

The \$4,680,743 construction cost and credit received from Desert Regional Medical Center for lower electrical costs of the hospital parking lot provided for a \$3 for \$1 reduction amounting to \$14,042,229 to the prepaid rent schedule. An additional \$4,589,200 reduction to the prepaid lease schedule was due to a \$3.50 for \$1 reduction per a 10 year facility lease agreement between the District and Hospital for facility space at the District's medical office building to be occupied by the Hospital.

As of June 30, 2019, the prepaid lease balance is \$5,901,897. This amount will decrease annually by \$3,066,667 per terms of the lease agreement. Should the lease terminate early, the prepaid lease repayment may be made in full or over a period of five years.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

3. CASH AND INVESTMENTS

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
District's Statement of Net Position:		
Cash and cash equivalents	\$ 12,052,794	\$ 2,004,735
Investments	48,228,320	54,326,412
Fiduciary Statement of Net Position:		
Cash and cash equivalents	945,995	3,447,997
Investments	<u>5,853,791</u>	<u>2,499,286</u>
 Total Cash and Investments	 <u><u>\$ 67,080,900</u></u>	 <u><u>\$ 62,278,430</u></u>

Cash and Investments consist
of the following:

Cash on Hand	\$ 700	\$ 700
Cash in Bank-District	2,049,242	985,741
Cash in Bank-Foundation	810,227	3,421,500
Money Market Funds	10,138,620	1,044,791
Investments	<u>54,082,111</u>	<u>56,825,698</u>
 Total Cash and Investments	 <u><u>\$ 67,080,900</u></u>	 <u><u>\$ 62,278,430</u></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, 2019

3. CASH, AND INVESTMENTS - Continued

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

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

3. CASH, AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk (Continued)

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

As of June 30, 2019

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	More than 49 Months
Corporate Bonds*	\$ 1,410,937	\$ 50,074	\$ 73,371	\$ 70,047	\$ 251,864	\$ 965,581
U.S. Government Agencies	22,160,590	7,486,335	5,519,485	7,066,850	2,087,920	
U.S. Government Agencies*	867,003		105,004	173,290	109,954	478,755
U.S. Treasury Notes	26,067,730	6,005,440	7,064,840	7,868,280	5,129,170	
U.S. Treasury Notes*	418,965	62,881	101,210		52,612	202,262
Mutual Funds-Open Ended*	1,204,392	1,204,392				
Domestic Common Stock*	1,952,494	1,952,494				
Total	<u>\$ 54,082,111</u>	<u>\$ 16,761,616</u>	<u>\$ 12,863,910</u>	<u>\$ 15,178,467</u>	<u>\$ 7,631,520</u>	<u>\$ 1,646,598</u>

* Held by Foundation

As of June 30, 2018

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	More than 49 Months
Corporate Bonds*	\$ 999,329	\$ 89,873	\$ -	\$ 41,882	\$ 19,265	\$ 848,309
U.S. Government Agencies	24,864,624	4,055,362	7,515,586	5,417,235	6,858,290	1,018,151
U.S. Treasury Notes	30,015,893	6,010,220	2,991,450	7,960,870	7,658,902	5,394,451
Municipal Bonds	205,182	10,000	19,876	39,920	14,859	120,527
Domestic Common Stock*	740,670	740,670				
Total	<u>\$ 56,825,698</u>	<u>\$ 10,906,125</u>	<u>\$ 10,526,912</u>	<u>\$ 13,459,907</u>	<u>\$ 14,551,316</u>	<u>\$ 7,381,438</u>

* Held by Foundation

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

3. CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk

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

As of June 30, 2019:

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA/AA	A	BBB/BB	Not Rated
Corporate Bonds*	\$ 1,410,937	N/A	\$ -	\$ 242,228	\$ 464,545	\$ 704,164	\$ -
U.S. Government Agencies	22,160,590	A		22,160,590			
U.S. Government Agencies*	867,003	N/A		867,003			
U.S. Treasury Notes	26,067,730	N/A	26,067,730				
U.S. Treasury Notes*	418,965	N/A	418,965				
Mutual Funds-Open Ended*	1,204,392	N/A					1,204,392
Domestic Common Stock*	1,952,494	N/A					1,952,494
Total	\$ 54,082,111		\$ 26,486,695	\$ 23,269,821	\$ 464,545	\$ 704,164	\$ 3,156,886

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

As of June 30, 2018:

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*	\$ 999,329	N/A	\$ -	\$ 131,966	\$ 867,363	\$ -	\$ -
U.S. Government Agencies	24,864,624	A		24,864,624			
U.S. Treasury Notes	30,015,893	N/A	30,015,893				
Municipal Bonds	205,182	N/A		57,737	147,445		
Domestic Common Stock*	740,670	N/A					740,670
Total	\$ 56,825,698		\$ 30,015,893	\$ 25,054,327	\$ 1,014,808	\$ -	\$ 740,670

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

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

3. CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are three investments at June 30, 2019 that represent 5% or more of total District investments (other than U.S. Treasury Notes). These investments are:

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

There are three investments at June 30, 2018 that represent 5% or more of total District investments (other than U.S. Treasury Notes). These investments are:

- Federal Home Loan Banks: \$7,544,505 with various maturity dates through June 30, 2023, and interest rates of 1.375-4.500%.
- Federal Home Loan Mortgage Corporation: \$4,953,650 with various maturity dates through June 30, 2022, and interest rates of 1.250-3.750%.
- Federal National Mortgage Association: \$12,263,445 with various maturity dates through June 30, 2022, and interest rates of 1.250-2.000%.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2019 and 2018, the District's deposits with financial institutions in excess of federal depository insurance limits are legally required by the California Government Code, to collateralize the District's deposits as noted above.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019

<u>Investments by fair value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt Securities				
Corporate Bonds	\$ 1,410,937	\$ 1,410,937	\$ -	\$ -
U.S. Government Agencies	23,027,593	23,027,593		
U.S. Treasury Notes	26,486,695	26,486,695		
Mutual Funds-Open Ended	1,204,392	1,204,392		
Domestic Common Stock	1,952,494	1,952,494		
	<u>\$ 54,082,111</u>	<u>\$ 54,082,111</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2018

<u>Investments by fair value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt Securities				
Corporate Bonds	\$ 999,329	\$ 999,329	\$ -	\$ -
U.S. Government Agencies	24,864,624	24,864,624		
U.S. Treasury Notes	30,015,893	30,015,893		
Municipal Bonds	205,182	205,182		
Domestic Common Stock	740,670	740,670		
	<u>\$ 56,825,698</u>	<u>\$ 56,825,698</u>	<u>\$ -</u>	<u>\$ -</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

4. CAPITAL ASSETS

Business-Type Activities

At June 30, 2019 and 2018, the capital assets of the business-type activities consisted of the following:

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

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

<u>June 30, 2018</u>				
	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Non-depreciable assets				
Land	\$ 3,988,650	\$ -	\$ -	\$ 3,988,650
Total non-depreciable assets	<u>3,988,650</u>			<u>3,988,650</u>
Depreciable assets:				
Buildings and improvements	17,779,595	228,320	(51,934)	17,955,981
Furniture and equipment	<u>171,623</u>	<u>4,923</u>		<u>176,546</u>
Total	17,951,218	233,243	(51,934)	18,132,527
Less accumulated depreciation	<u>(9,147,084)</u>	<u>(643,863)</u>	<u>51,934</u>	<u>(9,739,013)</u>
Total depreciable assets, net	<u>8,804,134</u>	<u>(410,620)</u>		<u>8,393,514</u>
Total Capital Assets, Net	<u>\$ 12,792,784</u>	<u>\$ (410,620)</u>	<u>\$ -</u>	<u>\$ 12,382,164</u>

Depreciation expense consists of operating expense depreciation of \$194,483 and rental expense depreciation of \$449,380.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

5. RESTRICTED NET POSITION

The District had \$0 of restricted net position at June 30, 2019 and 2018.

6. SPLIT INTEREST AGREEMENTS – FOUNDATION

At June 30, 2019 and 2018, the split interest agreements of the fiduciary fund consisted of the following:

	2019	2018
Contributions receivable - charitable remainder trusts	\$ 189,239	\$ 188,929
Total	\$ 189,239	\$ 188,929

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, 2018 and 2017, which is the most current information available, the estimated present value of future cash flows was \$126,022 and \$122,540, respectively.

Trust 7 (dated May 17, 1990): 8.5% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, all of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for general purposes. The estimated present value of future cash flows at June 30, 2019 and 2018 was \$63,217 and \$66,389, 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, 2019 and 2018, the total grant awards payable were \$12,809,355 and \$11,654,099, respectively. Total grant expense for the fiscal years ended June 30, 2019 and 2018 amounted to \$3,626,871 and \$5,076,039, respectively.

The Foundation has granted awards to various healthcare providers that provide needed healthcare services. At June 30, 2019 and 2018, the total grant awards payable were \$5,644,450 and \$4,821,167, respectively. Total grants and services expense for the years ended June 30, 2019 and 2018 amounted to \$1,536,658 and \$5,314,610, respectively.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

8. LONG-TERM DISABILITY CLAIMS RESERVE

Long-term disability claims were self-insured by the District. Claimants' payments are administered internally and made pursuant to the plan. Claimants are paid either to age 65 or until they return to work. At June 30, 2019 and 2018, the long-term disability claims reserves were as follows:

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

	<u>Balance at July 1, 2017</u>	<u>Claims Paid</u>	<u>Changes in Estimates</u>	<u>Balance at June 30, 2018</u>	<u>Due Within One Year</u>
Claims payable	\$ 77,018	\$ (14,803)	\$ 4,331	\$ 66,546	\$ 14,803

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

9. POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS

A. General Information about the OPEB Plan

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

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

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

Employees Covered by Benefit Terms – At June 30, 2019, the following employees were covered by the benefit terms:

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

B. Total OPEB Liability

The District’s total OPEB liability of \$87,973 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

<i>Inflation</i>	2.75 percent
<i>Investment return/discount rate</i>	3.80 percent net of expenses. Based on the Bond Buyer 20 Bond Index
<i>Healthcare cost trend rates</i>	4.00 percent
<i>Payroll increase</i>	2.75 percent
<i>The mortality assumptions</i>	Based on the 2009 CalPERS Mortality for Retired Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.
<i>Cost for retiree coverage</i>	Based on actual employer contribution. Liabilities for active participants are based on the first year costs. Subsequent years’ costs are based on first year costs adjusted for trend and limited by any District contribution caps.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

9. POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS (CONTINUED)

C. Changes in the Total OPEB Liability

Balance at June 30, 2018	\$ 108,687
<u>Changes for the fiscal year</u>	
Service cost	-
Interest	3,684
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(908)
Benefit payments	<u>(23,490)</u>
Net changes	<u>(20,714)</u>
Balance at June 30, 2019	<u>\$ 87,973</u>

No plan assets at June 30, 2019

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

	<u>Discount Rate</u> <u>1% Lower</u>	<u>Valuation</u> <u>Discount Rate</u>	<u>Discount Rate</u> <u>1% Higher</u>
Net OPEB liability	\$90,160	\$87,973	\$85,855

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

	<u>Trend</u> <u>1% Lower</u>	<u>Valuation</u> <u>Trend</u>	<u>Trend</u> <u>1% Higher</u>
Net OPEB liability	\$84,901	\$87,973	\$91,114

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

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of \$1,705. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows</u> <u>Of Resources</u>
Benefit payments subsequent to measurement date	\$ 14,147

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

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

10. INSURANCE

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

11. RENTAL INCOME

The District rents commercial office suites subject to lease terms ranging from three to five years. Rental income includes the base monthly rental payments plus the common area maintenance fee. Rental income consisted of the following for the fiscal years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Base rent	\$ 863,595	\$ 798,450
Common area maintenance	<u>340,345</u>	<u>314,791</u>
Total Rental Income	<u>\$ 1,203,940</u>	<u>\$ 1,113,241</u>

The five year fiscal year minimum rental schedule follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Base rent	\$ 770,966	\$ 684,077	\$ 705,797	\$ 594,856	\$ 251,198
Common area maintenance	297,456	260,221	260,221	215,871	90,613

12. COMMITMENT AND CONTINGENCIES

Earthquake Retrofit

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

Litigation

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

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

13. 401(K) RETIREMENT PLAN

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

The District contributes a dollar for dollar match for the first 4% of employee salary deferral and two dollars match for each additional dollar of the next 2% of employee salary deferral. The District's match contribution for the fiscal years ended June 30, 2019 and 2018 were \$47,285 and \$55,242, respectively.

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN

Effective July 1, 1971, Desert Hospital Corporation (Corporation) established a defined benefit pension plan (Plan) covering eligible employees of Desert Hospital. The Corporation was dissolved as of May 31, 1997 and the Plan has been frozen as of that date. The Desert Healthcare District (the "District") has assumed sponsorship of the Plan. Refer to the Plan's separate 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, 2019), the Plan's independent actuary determined that the actuarial value of the Plan's net pension liability was \$3,395,623 at June 30, 2019 and \$3,277,793 at June 30, 2018. In the report it was recommended that an actuarially determined contribution of \$366,275 as of June 30, 2019 and \$288,378 as of June 30, 2018, should be made. The District's board of directors elected not to fund the Plan during 2019. The plan was funded in the amount of \$0 during 2019 and 2018.

Administration and Trustee

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

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

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

Schedule of Funding Progress

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

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, 2019 and 2018, the following employees were covered by the benefit terms:

	<u>Miscellaneous</u>	
	<u>2019</u>	<u>2018</u>
Inactive plan members if beneficiaries currently receiving benefits	8	16
Inactive plan members entitled to but not yet receiving benefits	61	60
Active plan members	114	141
Total Employees Covered	<u>183</u>	<u>217</u>

Contributions

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

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

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

Net Pension Liability

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

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Inflation	2.75%
Discount rate	4.56%, net of pension plan investment expense, including inflation.
Measurement date	June 30, 2019, based on a valuation date of June 30, 2019.
Ad hoc cost-of-living increases	Not applicable
Mortality	Pre-Retirement: None Post-Retirement: Pub G Sex distinct mortality tables projected generationally with Scale MP-2018
Experience study	Given the size of the plan, there is not enough data available to conduct a credible experience study. The assumptions are not anticipated to produce significant cumulative actuarial gains or losses over time. The liabilities and data are analyzed each year in order to identify any trends of experience deviating from the actuarial assumptions. The plan is frozen to new participants and benefit accruals.
Retirement	100% retirement at age 65.
Termination	Participants* are assumed to work for the Desert Regional Medical Center operated by Tenet Health System Desert, Inc. until Normal Retirement Age.
Other assumptions	See actuarial assumptions provided in the June 30, 2019 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 4.56 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 4.56 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.82 percent is applied to all plans in the Plan. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at the Districts’ website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 4.56 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 4.71 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, 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

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

Net Pension Liability (Continued)

The Plan expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through the 2019-20 fiscal year. The Plan will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

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.

Expected Rate of Return

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

Asset Class	Target Allocation	Long-term expected real rate of return
Domestic fixed income securities	36.0%	2.50%
Domestic equities	45.0	5.50
International equities	15.0	6.50
International Fixed Income Securities	2.0	2.50
Cash	2.0	0.00

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability/(Asset) (c) = (a) - (b)
Balance, June 30, 2018	\$ 8,467,627	\$ 5,189,834	\$ 3,277,793
Changes in Recognized for the Measurement Period:			
Employer Contributions			
Interest on the Total Pension Liability	385,951		385,951
Differences between Expected and Actual Experience	(802,110)		(802,110)
Changes in Assumptions	769,854		769,854
Net Investment Income **		268,701	(268,701)
Benefit Payments, including Refunds of			
Employee Contributions	(511,792)	(511,792)	-
Administrative Expenses		(32,836)	32,836
Net Changes during 2018-19	(158,097)	(275,927)	117,830
Balance, June 30, 2019 *	\$ 8,309,530	\$ 4,913,907	\$ 3,395,623

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

** Net of administrative expenses.

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 4.56 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 (3.56 percent) or 1 percentage-point higher (5.56 percent) than the current rate:

	<u>1% Decrease</u> <u>(3.56%)</u>	<u>Current Discount</u> <u>Rate (4.56%)</u>	<u>1% Increase</u> <u>(5.56%)</u>
Net pension liability	\$ 4,614,511	\$ 3,395,623	\$ 2,396,408

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, 2019

14. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

Changes in the Net Pension Liability (Continued)

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

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$(561,964). At June 30, 2019, 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	\$ -	\$ (742,705)
Net differences between projected and actual earnings on pension plan investments	99,177	(187,998)
Changes in assumptions	1,060,012	(713,040)
Total	<u>\$ 1,159,189</u>	<u>\$ (1,643,743)</u>

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
2020	\$ (509,777)
2021	3,633
2022	1,464
2023	20,126
Total	<u>\$ (484,554)</u>

15. RELATED PARTY TRANSACTIONS

The Desert Healthcare District and the Desert Healthcare Foundation are related parties. The Foundation is organized to provide health and welfare assistance to Coachella Valley residents in need. The District donates funds (\$1,136,000) to the Foundation, to help fulfill their purpose. The District also provides the Foundation with office space and personnel (\$212,016).

REQUIRED SUPPLEMENTARY INFORMATION

DESERT HEALTHCARE DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

Prepared for the Desert Healthcare District, a Single-Employer Defined Benefit Pension Plan as of June 30, 2019

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement Period	2018-2019	2017-2018	2016-2017	2014-2015	2013-2014
Total Pension Liability					
Interest on total pension liability	\$ 385,951	\$ 399,298	\$ 321,990	\$ 397,980	\$ 418,035
Differences between expected and actual experience	(802,110)		(437,093)	(493,455)	(537,276)
Changes in assumptions	769,854	315,705	(2,852,163)	1,944,607	
Benefit payments, including refunds of employee contributions	(511,792)	(466,670)	(382,380)	(459,397)	(304,566)
Net change in total pension liability	(158,097)	248,333	(3,349,646)	1,389,735	(423,807)
Total pension liability - beginning	8,467,627	8,219,294	11,568,940	10,179,205	10,603,012
Total pension liability - ending (a)	8,309,530	8,467,627	8,219,294	11,568,940	10,179,205
Plan fiduciary net position					
Employer contributions			3,400,000		
Net investment income	268,701	347,969	426,828	(6,638)	71,101
Benefit payments	(511,792)	(466,670)	(382,380)	(459,397)	(304,566)
Administrative expenses	(32,836)	(35,638)	(24,513)	(14,983)	(17,886)
Net change in plan fiduciary net position	(275,927)	(154,339)	3,419,935	(481,018)	(251,351)
Plan fiduciary net position - beginning	5,189,834	5,344,173	1,924,238	2,405,256	2,656,607
Plan fiduciary net position - ending (b)	4,913,907	5,189,834	5,344,173	1,924,238	2,405,256
Net pension liability - ending (a) - (b)	<u>\$ 3,395,623</u>	<u>\$ 3,277,793</u>	<u>\$ 2,875,121</u>	<u>\$ 9,644,702</u>	<u>\$ 7,773,949</u>
Plan fiduciary net position as a percentage of the total pension liability	59.14%	61.29%	65.02%	16.63%	23.63%
Covered - employee payroll	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered - employee payroll	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Changes in Assumptions:

2017 to 2018 Investment rate of return, including inflation, and net of investment expenses changed from 5.00 % to 4.70%.

2017 to 2018 Discount Rate changed from 5.00% to 4.70%.

2018 to 2019 Discount Rate changed from 4.70% to 4.56%.

2018 to 2019 Investment rate of return, including inflation, and net of investment expenses changed from 4.70 % to 4.56%.

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

DESERT HEALTHCARE DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

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

Measurement period	<u>06/30/18</u>	<u>06/30/17</u>
Total OPEB Liability		
Service Cost	\$ -	\$ -
Changes in assumptions	(908)	-
Interest on the Total Pension Liability	3,684	4,057
Benefit Payments	<u>(23,490)</u>	<u>(22,587)</u>
Net Change in Total Pension Liability	(20,714)	(18,530)
Total OPEB Liability - Beginning	<u>108,687</u>	<u>127,217</u>
Total OPEB Liability - Ending (a)	<u>\$ 87,973</u>	<u>\$ 108,687</u>
Plan Fiduciary Net Position		
Contribution from the Employer	\$ 23,490	\$ 22,587
Net investment income	-	-
Benefit Payments	(23,490)	(22,587)
Administrative Expenses	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	-	-
Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 87,973</u>	<u>\$ 108,687</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>0.00%</u>	<u>0.00%</u>
Covered - Employee Payroll	<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>

Notes to Schedule:

Changes of Assumption: Investment/Discount rate changed from 3.50% to 3.80% from 2017 to 2018 measurement period.

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

DESERT HOSPITAL
RETIREMENT PROTECTION PLAN

PALM SPRINGS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2019



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Desert Hospital Retirement Protection Plan (the Plan) which comprise the statements of net assets available for benefits and of accumulated plan benefits as of June 30, 2019 and the related statements of changes in accumulated plan benefits the fiscal year then ended and the related notes to the financial statements, which collectively comprise the Plan's financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

Due to the Plan's status as a "frozen plan" as of May 31, 1997 (Note 1), certain disclosures and supplemental schedules required for the financial statements to be in accordance with generally accepted accounting principles in the United States of America are not included in the accompanying financial statements.

Qualified Opinion

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of June 30, 2019, and the changes in financial status for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

Other Matters

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019 on our consideration of the Plan's internal control over financial reporting and on our tests of compliance with laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting.

Required Supplementary Information

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

Report on Comparative Summarized Information

We have previously audited the Plan's 2018 financial statements, and our report dated October 1, 2018 expressed a qualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2018, 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 1, 2019

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND OF ACCUMULATED
PLAN BENEFITS**

JUNE 30, 2019

WITH COMPARATIVE TOTALS FOR JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	\$ 63,564	\$ 47,112
Investments, at fair value		
U.S. Government securities	852,161	947,425
Corporate equity securities	405,507	377,175
Corporate debt securities	716,638	899,038
Mutual funds	<u>2,872,938</u>	<u>2,911,510</u>
Total investments	<u>4,847,244</u>	<u>5,135,148</u>
Interest and dividends receivable	<u>11,287</u>	<u>16,220</u>
<u>LIABILITIES</u>		
Accrued trustee fees	<u>8,189</u>	<u>8,645</u>
<u>NET POSITION RESTRICTED FOR PENSION</u>		
Net position restricted for pension	<u>\$ 4,913,906</u>	<u>\$ 5,189,835</u>

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

DESERT HOSPITAL RETIREMENT PROTECTION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND CHANGES
IN ACCUMULATED PLAN BENEFITS

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2019	2018
<u>ADDITIONS:</u>		
Contributions	\$ -	\$ -
Investment income:		
Net appreciation in fair value of Plan assets	125,149	226,431
Interest, dividends, and other investment income	143,550	130,184
Net income	268,699	356,615
 <u>DEDUCTIONS:</u>		
Distributions of benefits	511,792	466,670
Administrative expenses	32,836	35,409
Total deductions	544,628	502,079
NET INCREASE (DECREASE) IN NET POSITION	(275,929)	(145,464)
 NET POSITION RESTRICTED FOR PENSION:		
BEGINNING OF THE FISCAL YEAR	5,189,835	5,335,299
END OF THE FISCAL YEAR	\$ 4,913,906	\$ 5,189,835

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

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. PLAN STATUS

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

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

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

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

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

2. PLAN DESCRIPTION

General

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

Vesting

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

Account Balances

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

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2. PLAN DESCRIPTION (Continued)

Contributions

There have been no contribution requirements by the District since May 31, 1997. Participant contributions to the Plan are not permitted. The most recent actuarial valuation as of June 30, 2019 by the Plan's independent actuary determined that the actuarial value of the Plan's net pension liability was \$3,395,624 at June 30, 2019 and \$3,277,792 at June 30, 2018 and recommended to the District an actuarially determined contribution of \$366,275 as of June 30, 2019 and \$288,378 as of June 30, 2018.

Administration and Trustee

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

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

Federal Income Taxes

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

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting

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

4. CASH AND INVESTMENTS

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

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

The Plan's investments are categorized below:

<u>Investment Type</u>	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	<u>\$ 63,564</u>	<u>\$ 63,564</u>	<u>\$ 47,112</u>	<u>\$ 47,112</u>
Investments				
U.S. Government securities	848,667	852,161	973,848	947,425
Corporate equity securities	307,796	405,507	307,499	377,175
Corporate debt securities	722,751	716,638	929,318	899,038
Mutual funds	<u>2,412,793</u>	<u>2,872,938</u>	<u>2,494,392</u>	<u>2,911,510</u>
Investments total	<u>4,292,007</u>	<u>4,847,244</u>	<u>4,705,057</u>	<u>5,135,148</u>
Total cash and investments	<u>\$4,355,571</u>	<u>\$4,910,808</u>	<u>\$4,752,169</u>	<u>\$5,182,260</u>

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

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

4. CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

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

As of June 30, 2019

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	More than 49 Months
Equity Based Mutual Funds	\$ 2,673,134	\$ 2,673,134	\$ -	\$ -	\$ -	\$ -
Fixed Income Mutual Funds	199,804	199,804				
Corporate Bonds	716,638	100,257	202,170	154,292	50,682	209,237
U.S. Government Agencies	597,094			50,739		546,355
U.S. Treasury Note	255,067	49,948	50,420	50,496		104,203
Foreign Stock	30,812	30,812				
Domestic Common Stock	374,695	374,695				
Total	<u>\$ 4,847,244</u>	<u>\$ 3,428,650</u>	<u>\$ 252,590</u>	<u>\$255,527</u>	<u>\$ 50,682</u>	<u>\$ 859,795</u>

As of June 30, 2018

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	More than 49 Months
Equity Based Mutual Funds	\$ 2,722,118	\$ 2,722,118	\$ -	\$ -	\$ -	\$ -
Fixed Income Mutual Funds	189,392	189,392				
Corporate Bonds	899,038	99,863	99,376	300,808	149,646	249,345
U.S. Government Agencies	648,935	1,170			49,344	598,421
U.S. Treasury Note	298,490	50,017	49,578	49,500	49,434	99,961
Foreign Stock	18,185	18,185				
Domestic Common Stock	358,990	358,990				
Total	<u>\$ 5,135,148</u>	<u>\$ 3,439,735</u>	<u>\$ 148,954</u>	<u>\$350,308</u>	<u>\$ 248,424</u>	<u>\$ 947,727</u>

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

4. CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

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

As of June 30, 2019:

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Equity Based Mutual Funds	\$ 2,673,134	N/A	\$ -	\$ -	\$ -	\$ -	\$ 2,673,134
Fixed Income Mutual Funds	199,804	N/A					199,804
Corporate Bonds	716,638	A			358,632	358,006	
U.S. Government Agencies	597,094	A		50,739		546,355	
U.S. Treasury Note	255,067	N/A	255,067				
Foreign Stock	30,812	N/A					30,812
Domestic Common Stock	374,695	N/A					374,695
Total	\$ 4,847,244		\$ 255,067	\$ 50,739	\$ 358,632	\$ 904,361	\$ 3,278,445

As of June 30, 2018:

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Equity Based Mutual Funds	\$ 2,722,118	N/A	\$ -	\$ -	\$ -	\$ -	\$ 2,722,118
Fixed Income Mutual Funds	189,392	N/A					189,392
Corporate Bonds	899,038	A			350,225	548,813	
U.S. Government Agencies	648,935	A				648,935	
U.S. Treasury Note	298,490	N/A	298,490				
Foreign Stock	18,185	N/A					18,185
Domestic Common Stock	358,990	N/A					358,990
Total	\$ 5,135,148		\$ 298,490	\$ -	\$ 350,225	\$ 1,197,748	\$ 3,288,685

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

4. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer. There are three investments at June 30, 2019 that represent 5% or more of total Plan investments. These investments are:

1,695 Shares of IShares S&P 500 Growth Etf valued at \$303,812
3,245 Shares of IShares S&P 500 Value Etf valued at \$378,270
4,275 Shares of IShares Msci Eafe Etf valued at \$280,996

There are three investments at June 30, 2018 that represent 5% or more of total Plan investments. These investments are:

1,695 Shares of IShares S&P 500 Growth Etf valued at \$275,624
3,245 Shares of IShares S&P 500 Value Etf valued at \$357,372
4,615 Shares of IShares Msci Eafe Etf valued at \$309,067

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 Plan's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

As of June 30, 2019, there were no District deposits with financial institutions in excess of federal depository insurance limits.

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

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

4. CASH AND INVESTMENTS (Continued)

Fair Value Measurements

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These 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; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The Plan has the following recurring fair value measurements as of June 30, 2019:

<u>Investment by fair value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt Securities				
US Government Issues	\$ 852,161	\$ 255,067	\$ 597,094	\$ -
Corporate Issues	716,638		716,638	
Mutual Funds- Equity	2,673,134	2,673,134		
Mutual Funds- Fixed Income	199,804		199,804	
Domestic Common Stock	374,695	374,695		
Foreign Stock	30,812	30,812		
Total	\$ 4,847,244	\$ 3,333,708	\$ 1,513,536	\$ -

The Plan has the following recurring fair value measurements as of June 30, 2018:

<u>Investment by fair value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt Securities				
US Government Issues	\$ 947,425	\$ 298,490	\$ 648,935	\$ -
Corporate Issues	899,038		899,038	
Mutual Funds- Equity	2,722,118	2,722,118		
Mutual Funds- Fixed Income	189,392		189,392	
Domestic Common Stock	358,990	358,990		
Foreign Stock	18,185	18,185		
Total	\$ 5,135,148	\$ 3,397,783	\$ 1,737,365	\$ -

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

5. ACTUARIAL ASSUMPTIONS

The total pension liability as of June 30, 2019 was determined using the following actuarial assumptions:

Inflation	2.75%
Discount rate	4.56%, net of pension plan investment expense, including inflation.
Measurement date	June 30, 2019, based on a valuation date of June 30, 2019.
Ad hoc cost-of-living increases	Not applicable
Mortality	Pre-Retirement: None Post-Retirement: Pub G - 2010 Sex distinct mortality tables projected generationally with Scale MP-2018
Experience study	Given the size of the plan, there is not enough data available to conduct a credible 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, 2019 funding valuation for other relevant assumptions.

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

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

6. NET PENSION LIABILITY OF THE PLAN

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2019</u>	<u>2018</u>
Total pension liability:		
Service cost	\$ -	\$ -
Interest	385,951	399,298
Changes of benefit terms		
Differences between expected and actual experience	(802,110)	
Changes of assumptions	769,854	315,705
Benefit payments, including refunds of member contributions	(511,792)	(466,670)
Net change in total pension liability	<u>(158,097)</u>	<u>248,333</u>
Total pension liability - beginning	<u>8,467,627</u>	<u>8,219,294</u>
Total pension liability - ending (a)	<u>\$ 8,309,530</u>	<u>\$ 8,467,627</u>
Plan fiduciary net position		
Contributions - employer	\$ -	\$ -
Net investment income	268,699	356,615
Benefit payments, including refunds of member contributions	(511,792)	(466,670)
Administrative expenses	(32,836)	(35,409)
Net change in plan fiduciary net position	<u>(275,929)</u>	<u>(145,464)</u>
Plan fiduciary net position - beginning	<u>5,189,835</u>	<u>5,335,299</u>
Plan fiduciary net position - ending (b)	<u>4,913,906</u>	<u>5,189,835</u>
Net pension liability - ending (a) - (b)	<u>\$ 3,395,624</u>	<u>\$ 3,277,792</u>
Plan fiduciary net position as a percentage of the total pension liability	59.14%	61.29%
Covered - employee payroll	N/A	N/A
Net pension liability as percentage of covered - employee payroll	N/A	N/A

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

6. NET PENSION LIABILITY OF THE PLAN (Continued)

Discount Rate and Net Pension Liability Sensitivity

1. Discount Rate

The discount rate used to measure the total pension liability was 4.56%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Professional judgement on future contributions has been applied in those cases where contribution patterns deviate from the actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted for current members during the 2037 fiscal year. Therefore, the long-term expected rate of return 6.82% was used to discount funded projected benefit payments and the municipal bond rate 3.15% was used to discount unfunded projected benefit payments to determine the total pension liability. The single effective discount rate was 4.56%.

2. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 4.56%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.56%) or 1-percentage-point higher (5.56%) than the current rate:

	<u>1% Decrease (3.56%)</u>	<u>Current Discount Rate (4.56%)</u>	<u>1% Increase (5.56%)</u>
Net pension liability	\$ 4,614,511	\$ 3,395,624	\$ 2,396,408

Summary

Plan membership

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

	<u>2019</u>	<u>2018</u>
Inactive plan members if beneficiaries currently receiving benefits	8	16
Inactive plan members entitled to but not yet receiving benefits	61	60
Active plan members*	114	141
	<u>183</u>	<u>217</u>

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

6. NET PENSION LIABILITY OF THE PLAN (Continued)

Summary (Continued)

Net Pension Liability

The components of the net pension liability at June 30,

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 8,309,530	\$ 8,467,627
Plan fiduciary net position	<u>(4,913,906)</u>	<u>(5,189,835)</u>
Net pension liability	<u>\$ 3,395,624</u>	<u>\$ 3,277,792</u>
Plan fiduciary net position as a % of the total pension liability	59.14%	61.29%

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions.

	<u>2019</u>	<u>2018</u>
Inflation	2.75%	2.75%
Salary increases	NA	NA
Investment rate of return	6.82%	6.82%
Discount rate	4.56%	4.70%

SUPPLEMENTARY INFORMATION

DESERT HOSPITAL RETIREMENT PROTECTION PLAN

SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2019

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

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



DESERT HEALTHCARE
DISTRICT & FOUNDATION

Date: October 8, 2019
To: Finance & Administration Committee
Subject: Auditor Firm– Request for Proposal (RFP)

Staff Recommendation: Consideration to issue a Request for Proposal for new audit firm and/or audit team.

Background:

- Moss, Levy & Hartzheim LLP (MLH) have been the auditors for the District/Foundation since FYE 6/30/14
- District staff is pleased with the work MLH has accomplished over the past six years
- It is the practice of the District to consider and evaluate a 5-year rotation of auditor firms and/or audit team.
- Staff has compiled a list of nine firms based on location and expertise to contact with the RFP
- Moss, Levy & Hartzheim LLP is included on the list of recipients for consideration. If selected, to maintain independence, MLH would provide a new audit team under a separate Partner, independent of the current audit team.
- Staff recommends approval of the draft RFP
- The RFP and List of Audit Firms are included in the packet for your review.

Fiscal Impact:

N/A



SAMPLE OF RFP LETTER

September 9, 2019

Managing partner

Firm Name

Dear:

The Desert Healthcare District (“DHCD”), a California Special Healthcare District is accepting proposals from CPA firms to provide June 30, 2020 year-end audit services for three separate entities as follows:

- 1) DHCD, a California Special Healthcare District
- 2) Desert Healthcare Foundation (DHCF), a 501(c)(3) Foundation
- 3) Desert Hospital Retirement Protection Plan (RPP), a frozen retirement plan excluded from coverage under section 4021(b)(2) of ERISA.

Tax return services for 990 filing is needed for DHCF only. State Controller Reports are required for Both DHCD and the RPP.

We invite your firm to submit a proposal to us by December 20, 2019 for consideration. Please submit to:

By mail:

**Chris Christensen, CPA
Desert Healthcare District
1140 N. Indian Canyon Drive
Palm Springs, California 92262**

By email:

cchristensen@dhcd.org

Attached are the June 30, 2019 audit reports for each of the entities and the June 30, 2019 990 for DHCF. The audit reports provide a brief description of each of the three entities. Also, please go to DHCD’s website at www.dhcd.org to learn more about the organization.

Your proposal is expected to cover the following services:

1. Annual audit fee for each entity to be completed in compliance with the previously mentioned filing requirements and meetings with audit committee and/or board of directors, as necessary
2. Tax filing for DHF and State Controller reports for DHCD and RPP.

Key Personnel

Following are key contacts for information you may seek in preparing your proposal:

Mr. Chris Christensen CFO (760) 323-6365 Email: cchristensen@dhcd.org
Mr. Conrado Bázquez CEO (760) 323-6273 Email: cbarzaga@dhcd.org

Relationship with Prior CPA

The audit and tax return services have been provided by Moss, Levy & Hartzheim, LLP, CPAs for the past six (6) years. We have had an excellent relationship with Moss, Levy & Hartzheim, but the DHCD and DHCF board of directors resolved to evaluate and consider a change in audit firms and/or audit team in order to get a fresh perspective on the financial position of DHCD and DHF. In preparing your proposal, be advised that management will give you permission to contact Moss, Levy & Hartzheim.

Your Response to This Request for Proposal

In responding to this request, we request the following information:

1. Detail your firm's experience in providing auditing and tax services to organizations in the government and not-for-profit industry, as well as associations of a comparable size to DHCD and DHCF. Please provide a list of clients of your firm including contacts for reference purposes.
2. Discuss commitments you will make to staff continuity, including your staff turnover experience in the last three years.
3. Identify the partner, manager, and in-charge accountant who will be assigned to our job if you are successful in your bid, and provide biographies. Indicate any complaints against them that have been leveled by the state board of accountancy or other regulatory authority, if any. Indicate any corrective actions that have been taken by the firm with respect to these personnel.
4. Describe how your firm will approach the audit of the organization. Also discuss the firm's use of technology in the audit and the communication process used by the firm to discuss issues with the management and audit committees of the board. Please provide the firms' latest peer review report.
5. Set forth your fee proposal for each entity for the June 30, 2020 audits, with whatever guarantees can be given regarding increases in future years. Your fee proposal should also delineate hours by level of staff.
6. Describe how you will bill for questions on technical matters that may arise throughout the year.
7. Furnish current standard and discounted billing rates for classes of professional personnel.
8. Provide the names and contact information for other similarly sized clients of the partner and manager that will be assigned to our organization for reference purposes.

9. Describe why our selection of your firm as our external accountants is the best decision we could make.
10. The deadline for completion of the Audit Reports is September 30, 2020. The audit firm is expected present the audit reports at the October meetings of the District's Finance & Administration Committee and Board of Directors.

Evaluation of Proposals

DHCD will evaluate proposals on a qualitative basis. This includes our review of the firm's peer review report and related materials, interviews with senior engagement personnel to be assigned to our organization, results of discussions with other clients, and the firm's completeness and timeliness in its response to us.

We would also appreciate a response if you decline to submit a proposal.

Sincerely,

Chris Christensen, CPA
Chief Administration Officer

Attachments:

June 30, 2019 audited financial statements and IRS Form 990 for FYE June 30, 2019.



CPA Firms – Request for Proposal - 2019

1. Moss, Levy & Hartzheim, LLP – Managing Partner – Hadley Y. Hui, CPA
Website: www.mlhcpas.com
Address: 5800 Hannum Avenue, Suite E, Culver City, CA 90230 – **Current Auditors**
Telephone: 310-670-2745, ext. 106
2. Lund & Guttry LLP – Managing Partner – Gary Dack, CPA
Website: www.lundandguttry.com
Address: 36917 Cook Street, Suite 102, Palm Desert, CA 92211
Telephone: 760-568-2242
3. White Nelson Diehl Evans LLP – Managing Partner - David P. Doran, CPA –
Website: www.wndecpa.com
Address: 2875 Michelle Drive, Suite 300, Irvine, CA 92606 – **Grossmont Auditors**
Telephone: 714-978-1300
4. Eadie and Payne, LLP – Senior Partner – Deborah Crowley, CPA
Website: www.eadiepaynellp.com
Address: 3880 Lemon Street, Suite 300, Riverside, CA 92501
Telephone: 951-241-7800
5. Maryanov Madsen Gordon & Campbell – Managing Partner – Steven T. Erickson, CPA
Website: www.mmgccpa.com
Address: 801 E. Tahquitz Canyon Way, Suite 200, Palm Springs, CA 92262
Telephone: 760-320-6642
6. Osborne Rincon, CPAs – Managing Partner (President) – Lee M. Osborne, CPA
Website: www.osbornerincon.com
Address: 79-245 Corporate Centre Drive, Suite 101, La Quinta, CA 92253
Telephone: 760-777-9805
7. Vasquez & Company, LLP – Managing Partner – Gilbert R. Vasquez, CPA
Website: www.vasquezcpas.com
Address: 655 N. Central Avenue, Suite 1550, Glendale, CA 91203
Telephone: 213-873-1700
8. Fechter & Company, CPAs – Managing Partner – Craig R. Fechter, CPA
Website: www.fechtercpa.com
Address: 1870 Avondale Avenue, Suite 4, Sacramento, CA 95825
Telephone: 916-333-5360 Fax: 916-244-0116
9. Lance, Soll & Lunghard, LLP – Managing Partner – Erika Aaron
Website: www.lslcpas.com
Address: 203 N. Brea Blvd., Suite 203, Brea, CA 92821
Telephone: 800-836-8027



DESERT HEALTHCARE
DISTRICT & FOUNDATION

Date: October 8, 2019
To: Finance & Administration Committee
Subject: Lease Agreement – Laboratory Corporation of America 3E 104-105

Staff Recommendation: Consideration to approve the draft lease agreement for Laboratory Corporation of America (LabCorp) at the Las Palmas Medical Plaza.

Background:

- LabCorp has been a long-standing tenant of the Las Palmas Medical Plaza
- LabCorp's current lease is on a month-to-month basis
- LabCorp is requesting a lease of three years, with a base rent of \$1.55/square foot and a Tenant Improvement Allowance of \$20/square foot
- Staff recommends approval of the draft lease agreement
- Draft lease agreement is attached for review

Fiscal Impact:

Estimated revenue from Rent and CAMs for life of the lease - \$174,959

Estimated cost of Tenant Improvement Allowance (\$20.00/sf) - \$44,000

TABLE OF CONTENTS

		PAGE
Article 1	LEASE OF PREMISES.....	2
Article 2	DEFINITIONS.....	2
Article 3	EXHIBITS AND ADDENDA.....	3
Article 4	DELIVERY AND POSSESSION.....	3
Article 5	RENT.....	3
Article 6	INTEREST AND LATE CHARGES.....	5
Article 7	SECURITY DEPOSIT.....	5
Article 8	TENANT'S USE OF THE PREMISES.....	6
Article 9	SERVICES AND UTILITIES.....	6
Article 10	CONDITION OF THE PREMISES.....	7
Article 11	CONSTRUCTION, REPAIRS, AND MAINTENANCE.....	7
Article 12	ALTERATIONS AND ADDITIONS.....	8
Article 13	LEASEHOLD IMPROVEMENTS;TENANT'S PROPERTY.....	8
Article 14	RULES AND REGULATIONS.....	9
Article 15	CERTAIN RIGHTS RESERVED BY LANDLORD.....	9
Article 16	ASSIGNMENT AND SUBLETTING.....	9
Article 17	HOLDING OVER.....	10
Article 18	SURRENDER OF PREMISES.....	10
Article 19	DESTRUCTION OR DAMAGE.....	10
Article 20	EMINENT DOMAIN.....	11
Article 21	INDEMNIFICATION.....	11
Article 22	TENANT'S INSURANCE.....	12
Article 23	WAIVER OF SUBROGATION.....	12
Article 24	SUBORDINATION AND ATTORNMENT.....	12
Article 25	TENANT ESTOPPAL CERTIFICATES.....	13
Article 26	TRANSFER OF LANDLORD'S INTEREST.....	13
Article 27	DEFAULT.....	13
Article 28	BROKERAGE FEES.....	14
Article 29	NOTICES.....	14
Article 30	GOVERNMENT ENERGY OR UTILITY CONTROLS.....	15
Article 31	RELOCATION OF PREMISES.....	15
Article 32	QUIET ENJOYMENT.....	15
Article 33	OBSERVANCE OF LAW.....	15
Article 34	FORCE MAJEURE.....	15
Article 35	CURING TENANT'S DEFAULTS.....	15
Article 36	SIGN CONTROL.....	16
Article 37	MISCELLANEOUS.....	16

OFFICE BUILDING LEASE

This Lease between Desert Healthcare District, doing business as Las Palmas Medical Plaza hereinafter referred to as "Landlord", and Laboratory Corporation of America, referred to as "Tenant", and is dated November 1, 2019.

1. LEASE OF PREMISES.

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

2. DEFINITIONS.

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

- a. *Base Rent (Initial)*: \$ Forty Thousand, Nine-Hundred Twenty Dollars 00/100 (\$40,920.00) per year.
- b. *Base Year*: The calendar year of November 1 to October 31.
- c. *Broker(s)*:
Landlord's: N/A
Tenant's: N/A
In the event that N/A, represents both Landlord and Tenant, Landlord and Tenant hereby confirm that they were timely advised of the dual representation and that they consent to the same, and that they do not expect said broker to disclose to either of them the confidential information of the other party.
- d. *Commencement Date*: November 1st, 2019.
- e. *Common Areas*: The building lobbies, common corridors and hallways, restrooms, parking areas, stairways, elevators and other generally understood public or common areas. Landlord shall have the right to regulate or restrict the use of the Common Areas.
- f. *Expiration Date*: October 31st, 2022, unless otherwise sooner terminated in accordance with the provisions of this Lease.
- g. *Landlord's Mailing Address*: 1140 N. Indian Canyon Dr., Palm Springs, CA 92262
Tenant's Mailing Address: 555 E. Tachevah Dr. 3E-104, Palm Springs, CA 92262.
- h. *Monthly Installments of Base Rent (initial)*: Three-Thousand Four-Hundred Ten and 00/100 Dollars (\$3,410.00) per month.
- i. *Project Operating Costs (CAMs)*: Currently Sixty-Two Cents (\$.62) per square foot per month.
- j. *Tenant Improvement Allowance (TI)*: Twenty Dollars (\$20) per square foot or Forty-Four Thousand and 00/100 Dollars (\$44,000.00).
- k. *Parking*: Tenant shall be permitted, to park 11 cars on a non-exclusive basis in the area(s) designated by Landlord for parking (for Staff - generally in the back of the parking area, perimeter streets, and Wellness Park parking lot). Tenant shall abide by any and all parking regulations and rules established from time to time by Landlord or Landlord's parking operator.
- l. *Premises*: That portion of the Building containing approximately 2,200 square feet of Rentable Area, located in Building 3E and known as Suite 104-105.
- m. *Project*: The building of which the Premises are a part (the "Building") and any other buildings or improvements on the real property (the "Property") located at 555 E. Tachevah Drive, Palm Springs, California 92262. The Project is known as The Las Palmas Medical Plaza.
- n. *Rentable Area*: As to both the Premises and the Project, the respective measurements of floor area as may from time to time be subject to lease by Tenant and all tenants of the Project, respectively, as determined by Landlord and applied on a consistent basis throughout the Project.

- o. *Security Deposit (Section 7)*: \$ Zero and 00/100 Dollars (\$00.00) .
- p. *State*: the State of California.
- q. *Tenant's First Adjustment Date (Section 5)*: The first day of the calendar month following the Commencement Date plus 12 months.
- r. *Tenant's Proportionate Share*: 4.46 %. Such share is a fraction, the numerator of which is the Rentable Area of the Premises and the denominator of which is the Rentable Area of the Project, as determined by Landlord from time to time. The Project consists of six building(s) containing a total Rentable Area of 49,356 square feet.
- s. *Tenant's Use Clause (Article 8)*: General office use consistent with and use the City may allow under the City of Palm Springs zoning, subject to Landlord's reasonable approval.
- t. *Term*: The period commencing on the Commencement Date and expiring at midnight on the Expiration Date.

3. EXHIBITS AND ADDENDA.

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

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

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

4. DELIVERY OF POSSESSION.

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

5. RENT.

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

5.2 *Adjusted Base Rent*:

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

5.3 *Project Operating Costs (CAMs)*:

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

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

- (a.) All taxes, assessments, water and sewer charges and other similar governmental charges levied on or attributable to the Building or Project or their operation, including without limitation, (i) real property taxes or assessments levied or assessed against the Building or Project, (ii) assessments or charges levied or assessed against the Building or Project by any redevelopment agency, (iii) any tax measured by gross rentals received from the leasing of the Premises, Building or Project, excluding any net income, franchise, capital stock, estate or inheritance taxes imposed by the State or federal government or their agencies, branches or departments; provided that if at any time during the Term any governmental entity levies, assesses or imposes on Landlord any (1) general or special, ad valorem or specific, excise, capital levy or other tax, assessment, levy or charge directly on the Rent received under this lease or on the rent received under any other leases of space in the Building or Project, or (2) and license fee, excise or franchise tax, assessment, levy or charge measured by or based, in whole or in part, upon such rent, or (3) any transfer, transactions, or similar tax, assessment, levy or charge based directly or indirectly upon the transaction

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

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

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

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

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

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

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

(e.) If any dispute arises as to the amount of any additional rent due hereunder, Tenant shall have the right after reasonable notice and at reasonable times to inspect Landlord's accounting records at Landlord's

accounting office and, if after such inspection Tenant still disputes the amount of additional rent owed, a certification as to the proper amount shall be made by Landlord's certified public accountant, which certification shall be final and conclusive. Tenant agrees to pay the cost of such certification unless it is determined that Landlord's original statement overstated Project Operating Costs by more than five percent (5%).

- (f.) If this Lease sets forth an Expense Stop at Section 2f, then during the Term, Tenant shall be liable for Tenant's Proportionate Share of any actual Project Operating Costs which exceed the amount of the Expense Stop. Tenant shall make current payments of such excess costs during the Term in the same manner as is provided for payment of Excess Expenses under the applicable provisions of Section 5.3(2)(b) and (c) above.

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

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

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

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

6. INTEREST AND LATE CHARGES.

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

7. SECURITY DEPOSIT.

Tenant agrees to deposit with Landlord the Security Deposit set forth at Section 2.0 upon execution of this Lease, as security for Tenant's faithful performance of its obligations under this Lease. Landlord and Tenant agree that the

Security Deposit may be commingled with funds of Landlord and Landlord shall have no obligation or liability for payment of interest on such deposit. Tenant shall not mortgage, assign, transfer or encumber the Security Deposit without the prior written consent of Landlord and any attempt by Tenant to do so shall be void, without force or effect and shall not be binding upon Landlord.

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

8. TENANT'S USE OF THE PREMISES

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

9. SERVICES AND UTILITIES.

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

Tenant shall not, without the written consent of Landlord, use any apparatus or devise in the Premises, including without limitation, electronic data processing machines, punch card machines or machines using in excess of 120 volts, which consumes more electricity than is usually furnished or supplied for the use of premises as general office space, as determined by Landlord. Tenant shall not connect any apparatus with electric current except through existing electrical outlets in the Premises. Tenant shall not consume water or electric current in excess of that usually furnished or supplied for the use of premises as general office space (as determined by Landlord), without first procuring the written consent of Landlord, which Landlord may refuse, and in the event of consent, Landlord may have installed a water meter or electrical

current meter in the Premises to measure the amount of water or electric current consumed. The cost of any such meter and of its installation, maintenance and repair shall be paid for by the Tenant and Tenant agrees to pay to Landlord Promptly upon demand for all such water and electric current consumed as shown by said meters, at the rates charged for such services by the local public utility plus any additional expense incurred in keeping account of the water and electric current so consumed. If a separate meter is not installed, the excess cost for such water and electric current shall be established by an estimate made by a utility company or electrical engineer hired by Landlord at Tenant's expense.

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

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

10. CONDITION OF THE PREMISES.

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

II. CONSTRUCTION, REPAIRS AND MAINTENANCE.

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

demand. Tenant shall not install business machines or mechanical equipment which cause noise or vibration to such a degree as to be objectionable to Landlord or other Building tenants.

- f. Except as otherwise expressly provided in this Lease, Landlord shall have no liability to Tenant nor shall Tenant's obligations under this Lease be reduced or abated in any manner whatsoever by reason of any inconvenience, annoyance, interruption or injury to business arising from Landlord's making any repairs or changes which Landlord is required or permitted by this Lease or by any other tenant's lease or required by law to make in or to any portion of the Project, Building or the Premises. Landlord shall nevertheless use reasonable efforts to minimize any interference with Tenant's business in the Premises.
- g. Tenant shall give Landlord prompt notice of any damage to or defective condition in any part or appurtenance of the Building's mechanical, electrical, plumbing, HVAC or other systems serving, located in, or passing through the Premises.
- h. Upon the expiration or earlier termination of this Lease, Tenant shall return the Premises to Landlord clean and in the same condition as on the date Tenant took possession, except for normal wear and tear. Any damage to the Premises, including any structural damage, resulting from Tenant's use or from the removal of Tenant's fixtures, furnishings and equipment pursuant to Section 13b shall be repaired by Tenant at Tenant's expense.

12. ALTERATIONS AND ADDITIONS.

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

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

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

13. LEASEHOLD IMPROVEMENTS; TENANT'S PROPERTY.

- a. All fixtures, equipment, improvements and appurtenances attached to or built into the Premises at the commencement of or during the Term, whether or not by or at the expense of Tenant ("Leasehold Improvements"), shall be and remain a part of the Premises, shall be the property of Landlord and shall not be removed by Tenant, except as expressly provided in Section 13b.
- b. All movable partitions, business and trade fixtures, machinery and equipment, communications equipment and office equipment located in the Premises and acquired by or for the account of Tenant, without expense to Landlord, which can be removed without structural damage to the Building, and all furniture, furnishings and other articles of movable personal property owned by Tenant and located in the Premises (collectively "Tenant's Property") shall be and shall remain the property of Tenant and may be removed by Tenant at any time during the

Term; provided that if any of Tenant's Property is removed, Tenant shall promptly repair any damage to the Premises or to the Building resulting from such removal.

14. RULES AND REGULATIONS.

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

15. CERTAIN RIGHTS RESERVED BY LANDLORD.

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

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

16. ASSIGNMENT AND SUBLETTING.

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

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

portion of the Premises subleased), plus (ii) any real estate brokerage commissions or fees payable in connection with such assignment or subletting, shall be paid to Landlord as additional rent under this Lease without affecting or reducing any other obligations of Tenant hereunder.

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

17. HOLDING OVER.

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

18. SURRENDER OF PREMISES.

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

19. DESTRUCTION OR DAMAGE.

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

given within thirty (30) days after the date of such fire or other casualty, to repair such damage, in which event this Lease shall continue in full force and effect, but the Base Rent shall be partially abated as provided in Section 19a. If Landlord does not so elect to make such repairs, this Lease shall terminate as of the date of such fire or other casualty.

- d. If the Premises are to be repaired under this Article, Landlord shall repair at its cost any injury or damage to the Building and Building Standard Work in the Premises. Tenant shall be responsible at its sole cost and expense for the repair, restoration, and replacement of any other Leasehold Improvements and Tenant's Property. Landlord shall not be liable for any loss of business, inconvenience or annoyance arising from any repair or restoration of any portion of the Premises, Building, or Project as a result of any damage from fire or other casualty.
- e. This Lease shall be considered an express agreement governing any case of damage to or destruction of the Premises, Building, or Project by fire or other casualty, and any present or future law which purports to govern the rights of Landlord and Tenant in such circumstances in the absent of express agreement, shall have no application.

20. EMINENT DOMAIN.

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

21. INDEMNIFICATION.

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

22. TENANT'S INSURANCE.

- a. All insurance required to be carried by Tenant hereunder shall be issued by responsible insurance companies acceptable to Landlord and Landlord's lender and qualified to do business in the State. Each policy shall name Landlord, and at Landlord's request any mortgagee of Landlord, as an additional insured, as their respective

interests may appear. Each policy shall contain (i) a cross-liability endorsement, (ii) a provision that such policy and the coverage evidenced thereby shall be primary and non-contributing with respect to any policies carried by Landlord and that any coverage carried by Landlord shall be excess insurance, and (iii) a waiver by the insurer of any right of subrogation against Landlord, its agents, employees, and representatives, which arises or might arise by reason of any payment under such policy or by reason of any act or omission of Landlord, its agents, employees, or representatives. A copy of each paid up policy (authenticated by the insurer) or certificate of the insurer evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord before the date Tenant is first given the right of possession of the Premises, and thereafter within thirty (30) days after any demand by Landlord therefore. Landlord may, at any time and from time to time, inspect and/or copy any insurance policies required to be maintained by Tenant hereunder. No such policy shall be cancelable except after twenty (20) days written notice to Landlord and Landlord's lender. Tenant shall furnish Landlord with renewals or "binders" of any such policy at least ten (10) days prior to the expiration thereof. Tenant agrees that if Tenant does not take out and maintain such insurance, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge the Tenant the premiums together with a twenty-five percent (25%) handling charge, payable upon demand. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by the Tenant, provided such blanket policies expressly afford coverage to the Premises, Landlord, Landlord's mortgagee, and Tenant as required by this Lease.

- b. Beginning on the date Tenant is given access to the Premises for any purpose and continuing until expiration of the Term, Tenant shall procure, pay for and maintain in effect policies of casualty insurance covering (i) all Leasehold Improvements (including any alterations, additions, or improvements as may be made by Tenant pursuant to the provisions of Article 12 hereof), and (ii) trade fixtures, merchandise, and other personal property from time to time in, on, or about the Premises, in an amount not less than one hundred percent (100%) of their actual replacement cost from time to time, providing protection against any peril included within the classification "Fire and Extended Coverage" together with insurance against sprinkler damage, vandalism, and malicious mischief. The proceeds of such insurance shall be used for the repair or replacement of the property so insured. Upon termination of this Lease following a casualty as set forth herein, the proceeds under (i) above be paid to Landlord, and the proceeds under (ii) above be paid to Tenant.
- c. Beginning on the date Tenant is given access to the Premises for any purpose and continuing until expiration of the Term, Tenant shall procure, pay for, and maintain in effect worker's compensation insurance as required by law and comprehensive public liability and property damage insurance with respect to the construction of improvements on the Premises, the use, operation, or condition of the Premises, and the operations of Tenant in, on, or about the Premises, providing broad form property damage coverage for not less than Five Hundred Thousand Dollars (\$500,000) per person and One Million Dollars (\$1,000,000) each occurrence, and property damage liability insurance with a limit of not less than Two Hundred Fifty Thousand Dollars (\$250,000) each accident.
- d. Not less than every three (3) years during the Term, Landlord and Tenant shall mutually agree to increases in all of Tenant's insurance policy limits for all insurance to be carried by Tenant as set forth in this Article. In the event Landlord and Tenant cannot mutually agree upon the amounts of said increases, then Tenant agrees that all insurance policy limits as set forth in this Article shall be adjusted for increases in the cost of living in the same manner as is set forth in Section 5.2 hereof for the adjustment of the Base Rent.

23. WAIVER OF SUBROGATION.

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

24. SUBORDINATION AND ATTORNMENT.

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

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

25. TENANT ESTOPPEL CERTIFICATE.

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

26. TRANSFER OF LANDLORD'S INTEREST.

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

27. DEFAULT.

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

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

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

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

If Landlord re-enters the Premises under the provisions of subparagraph b or c above, Landlord shall not be deemed to have terminated this Lease or the obligation of Tenant to pay any Rent or other charges thereafter accruing, unless Landlord notifies Tenant in writing of Landlord's election to terminate this Lease. In the event of any re-entry or retaking of possession by Landlord, Landlord shall have the right, but not the obligation, to

remove all or any part of Tenant's Property in the Premises and to place such property in storage at a public warehouse at the expense and risk of Tenant. If Landlord elects to relet the Premises for the account of Tenant, the rent received by Landlord from such reletting shall be applied as follows: first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; second, to the payment of any costs of such reletting; third, to the payment of the cost of any alterations or repairs to the Premises; fourth, to the payment of Rent due and unpaid hereunder; and the balance, if any, shall be held by Landlord and applied in payment of future Rent as it becomes due. If that portion of rent received from the reletting, which is applied against, the Rent due hereunder is less than the amount of the Rent due, Tenant shall pay the deficiency to Landlord promptly upon demand by Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as determined, any costs and expenses incurred by Landlord in connection with such reletting or in making alterations and repairs to the Premises, which are not covered by the rent received from the reletting.

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

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

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

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

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

28. BROKERAGE FEES.

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

29. NOTICES.

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

30. GOVERNMENT ENERGY OR UTILITY CONTROLS.

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

31. RELOCATION OF PREMISES.

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

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

32. QUIET ENJOYMENT.

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

33. OBSERVANCE OF LAW.

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

34. FORCE MAJEURE.

Any prevention, delay or stoppage of work to be performed by Landlord or Tenant which is due to strikes, labor disputes, inability to obtain labor, materials, equipment or reasonable substitutes therefore, acts of God, governmental restrictions or regulations or controls, judicial orders, enemy or hostile government actions, civil commotion, fire or other casualty, or other causes beyond the reasonable control of the party obligated to perform hereunder, shall excuse performance of the

work by that party for a period equal to the duration of that prevention, delay or stoppage. Nothing in this Article 34 shall excuse or delay Tenant's obligation to pay Rent or other charges under this Lease.

35. CURING TENANT'S DEFAULTS.

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

36. SIGN CONTROL.

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

37. MISCELLANEOUS.

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

statements reflecting Tenant's current financial condition. Tenant represents and warrants that all financial statements, records and information furnished by Tenant to Landlord in connection with this Lease are true, correct and complete in all respects.

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

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

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

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

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

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

Date:	_____	Date:	_____
Landlord:	<u>Desert Healthcare District</u>	Tenant:	_____
	<u>dba: Las Palmas Medical Plaza</u>		
By:	<u>Conrado Bárzaga</u>	By:	_____
Signature:	_____	Signature:	_____

Title: CEO _____

Title: _____

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

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

DRAFT

EXHIBIT "A"

RULES AND REGULATIONS

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

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

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

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

Landlord's Initials

Tenant's Initials

DRAFT

ADDENDUM

Addendum to that certain Office Building Lease dated November 1, 2019 by and between Desert Healthcare District doing business as the Las Palmas Medical Plaza, as Landlord and Laboratory Corporation of America, as Tenant for the property commonly known as Las Palmas Medical Plaza located 555 E. Tachevah Drive, Palm Springs, California 92262.

Page 1

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

- 1. Commencement Date: November 1, 2019
- 2. Expiration Date: October 31, 2022
- 3. Rent Schedule:

11/1/2019 – 10/31/2020	\$3,410.00	
11/1/2020 – 10/31/2021	\$3,495.25	Greater of 2.5% or CPI
11/1/2021 – 10/31/2022	\$3,582.63	Greater of 2.5% or CPI
- 4. CAMs: Currently \$.62 per square foot.
- 5. Security Deposit: Zero and 00/100 Dollars (\$00.00).

The foregoing is hereby agreed to and accepted:

Date: _____

Date: _____

Landlord: Desert Healthcare District
dba: Las Palmas Medical Plaza

Tenant: _____

By: Conrado Bárzaga

By: _____

Signature: _____

Signature: _____

Title: CEO

Title: _____



DESERT HEALTHCARE
DISTRICT & FOUNDATION

Date: October 8, 2019
To: Finance & Administration Committee
Subject: Fire Sprinkler Alarm System – Las Palmas Medical Plaza

Staff Recommendation: Consideration to approve service proposal from Comtron Systems, Inc. for installation of fire sprinkler monitoring system at the Las Palmas Medical Plaza

Background:

- Desert Healthcare District previously engaged the services of D.W. Johnston to upgrade the fire sprinkler system and infrastructure at the Las Palmas Medical Plaza
- D.W. Johnston successfully connected the infrastructure from the street to the previously unconnected buildings on the property
- The final step in the fire sprinkler upgrade and installation process is the connection of the alarm system
- Comtron Systems, Inc. has submitted a proposal for 2 options for the installation of a fire sprinkler alarm system, including monthly monitoring
- Option 1 – install one (1) monitor and connect with conduit to second building
- Option 2 – install two (2) monitors, one monitor at each building
- The installation cost is relatively similar. However, Option 1 requires monthly monitoring service for one (1) monitor at \$75 per month, while Option 2 requires monitoring for two (2) monitors at \$150 per month.
- Staff recommends approval of Option 1
- Draft proposal is attached for your review

Fiscal Impact:

Option 1 –	Installation;	\$7,750
	Conduit installation:	\$2,000 (estimated)
	Monitoring fee:	\$75/month
Option 2 –	Installation;	\$9,500
	Monitoring fee:	\$150/month

October 1st, 2019



Desert Healthcare District
1140 N Indian Canyon Drive
Palm Springs, CA 92262
Phone: 760-323-6365
Email: cchristensen@dhcd.org

Proposed Location:
Las Palmas Medical Plaza
555 Tachevah Drive
Palm Springs, Ca 92262

Dear Chris

Thank you for the opportunity to offer our proposal on your Fire Sprinkler Monitoring System needs at the above location.

OPTION 1 – Master Control Communicator installed at Building 3W and connecting to Building 2W

**SCOPE OF WORK FOR SEPARATE FIRE SPRINKLER MONITORING SYSTEM
AT BUILDING 3W**

SINGLE STORY

<u>QUANTITY</u>	<u>ITEM</u>	<u>DESCRIPTION</u>
(1)	VISTA32FB	Master Control Communicator 8 Zones (FACP)
(1)	6160CR	Alpha Annunciator Keypad
(1)	YANP712	Yuasa 7AH Rechargeable Battery
(1)	2WB	Smoke Detectors Located: (1) Above FACP
(1)	WFIC	Water Flow Initiation Circuit* (Contact Closer Only)
(1)	Butterfly	Butter Fly Tamper Circuit* (Contact Closer Only)
(1)	AES	Leased Fire Radio Communication (*\$30.00 per month for Communication-Value of \$1,499.00)

Cost for installation of Building Fire System with Monitoring-: \$4,250.00

*** Requires a five-year monitoring agreement. Monthly monitoring \$45, billed quarterly.**

Total price with Monitoring and communication Monthly \$75.00 billed quarterly

**SCOPE OF WORK FOR FIRE SPRINKLER MONITORING SYSTEM ADDED
TO ONE STORY SYSTEM AT BUILDING 3W**

TWO STORY ADD-ON

<u>QUANTITY</u>	<u>ITEM</u>	<u>DESCRIPTION</u>
(1)	WFIC	Tie in Water Flow Initiation Circuit west building (Contact Closer Only)
(1)	Butterfly	Butter Fly Tamper Circuit* (Contact Closer Only)
(1)	601	Heat detector in elevator equipment Room for Shunt (Contact Closer Only) Elevator Company and Electricians will be responsible for Electro-mechanical shut down of elevator upon initiation of Heat detector.
(1)	2WB	Smoke Detector in elevator Room

Cost for installation of Building Fire System with Monitoring-: \$3,500.00

***Note: Customer will be responsible for conduit connecting the two buildings for integration of Fire Alarm System**

TOTAL OPTION 1

Installation: \$7,750

Monitoring: \$75 per month

Conduit Connection: will be installed with landscape (estimated \$2,000)

OPTION 2 – 2 Master Control Communicators installed at Building 3W and Building 2W

**SCOPE OF WORK FOR SEPARATE FIRE SPRINKLER MONITORING SYSTEM
AT BUILDING 3W**

SINGLE STORY

<u>QUANTITY</u>	<u>ITEM</u>	<u>DESCRIPTION</u>
(1)	VISTA32FB	Master Control Communicator 8 Zones (FACP)
(1)	6160CR	Alpha Annunciator Keypad
(1)	YANP712	Yuasa 7AH Rechargeable Battery
(1)	2WB	Smoke Detectors Located: (2) Above FACP
(1)	WFIC	Water Flow Initiation Circuit* (Contact Closer Only)
(1)	Butterfly	Butter Fly Tamper Circuit* (Contact Closer Only)
(1)	AES	Leased Fire Radio Communication (*\$30.00 per month for Communication-Value of \$1,499.00)

Cost for installation of Building Fire System with Monitoring:-

\$4,250.00

*** Requires a five-year monitoring agreement. Monthly monitoring \$45, billed quarterly.**

Total price with Monitoring and communication Monthly \$75.00 billed quarterly

**SCOPE OF WORK FOR SEPARATE FIRE SPRINKLER MONITORING SYSTEM
AT BUILDING 2W**

TWO STORY

<u>QUANTITY</u>	<u>ITEM</u>	<u>DESCRIPTION</u>
(1)	VISTA32FB	Master Control Communicator 8 Zones (FACP)
(1)	6160CR	Alpha Annunciator Keypad
(1)	YANP712	Yuasa 7AH Rechargeable Battery
(1)	2WB	Smoke Detectors Located: (1) Above FACP
(1)	WFIC	Tie in Water Flow Initiation Circuit west building (Contact Closer Only)
(1)	Butterfly	Butter Fly Tamper Circuit* (Contact Closer Only)
(1)	601	Heat detector in elevator equipment Room for Shunt (Contact Closer Only) Elevator Company and Electricians will be responsible for Electro-mechanical shut down of elevator upon initiation of Heat detector.
(1)	2WB	Smoke Detector in elevator Room
(1)	AES	Leased Fire Radio Communication (*\$30.00 per month for Communication-Value of \$1,499.00)

Cost for installation of Building Fire System with Monitoring-: \$5,250.00

*** Requires a five-year monitoring agreement. Monthly monitoring \$45, billed quarterly.**

Total price with Monitoring and communication Monthly \$75.00 billed quarterly

TOTAL OPTION 2

Installation: \$9,500
Monitoring: \$150 per month

This system includes installation of all the above components, as well as the prewire. There is a *one-year warranty* for all materials furnished and all labor performed.

If I may be of any assistance, please feel free to give me a call at (760) 776-8811.

Cordially;

Andrew Sorensen
Comtron Systems, Inc.

ADDENDUM

Comtron is responsible for:

- 1) Supplying all equipment necessary to complete the job.
- 2) Wiring for Fire Alarm System.
- 3) Installing Rough-In Boxes.
- 4) Permit and Submittals for the Fire Inspector.

Responsibilities Of Others:

- 1) Access to Building during regular business hours.
- 2) Architectural and plot plan blue-line drawing for preparation of Fire Submittals.
- 3) All Conduit.
- 4) Provide A/C Power to building.
- 5.) N/A
- 6) Provide Knox box.
- 7) Provide PIV and OS&Y supervisory switches.
- 8) Provide Water Flow initiation switches.
- 9) Provide HAVC Duct Detectors and Dampers.
- 10) Provide door holders.
- 11) Water Flow Bells



DESERT HEALTHCARE
DISTRICT & FOUNDATION

Date: October 8, 2019
To: Finance & Administration Committee
Subject: Political Consultants for a potential Tenet Transaction for the Sale of DRMC

Staff Recommendation: Discussion regarding consulting services for a political consultant should a Tenet transaction develop for a sale of Desert Regional Medical Center (DRMC)

Background:

- July 14, 2019, Tenet submitted a proposal to purchase Desert Regional Medical Center from the Desert Healthcare District (DHCD).
- July 25, 2019, the proposal was presented to the Board of Directors.
- The Board requested Tenet bring back a more substantial proposal.
- A service agreement with Kaufman Hall was approved to work with DHCD regarding the proposal.
- An ad hoc committee was formed and is working with Staff, the District's legal counsel, and Kaufman Hall.
- Should a future Tenet proposal be agreeable to the Board of Directors, DHCD will engage a political consultant to determine the feasibility of placing an initiative on either the March or November 2020 election ballot.
- Phase 1 Feasibility – the Consultant will provide guidance to the Board in strategizing a potential ballot initiative. Polling and focus groups will be conducted as part of this phase.
- A service agreement can be structured to authorize Phase 1 Feasibility only.
- If the ballot initiative is deemed feasible, the Board may then authorize the Consultant to create a program to educate the public on the potential sale (Phase 2).
- Staff recommends direction from the Committee to bring forward consulting agreements for consideration of approval for a Political Consultant.

Fiscal Impact:

Estimated Costs:

Phase 1 - Feasibility	\$ 70,000
Phase 2 - Education Program*	<u>\$115,000</u>
Total	<u>\$185,000</u>

*Phase 2 awarded only if ballot initiative is deemed feasible and the Board authorizes moving forward with an Education Program.



DESERT HEALTHCARE
DISTRICT & FOUNDATION

Date: October 8, 2019
To: Finance and Administration Committee
Subject: Policy Map Subscriber Agreement

Staff Recommendation: Information regarding a 15-month Policy Map Premium Subscriber Agreement.

Background: PolicyMap offers easy-to-use online mapping with data on demographics, real estate, health, jobs and more in communities across the US. PolicyMap can be used as a single point of entry to evaluate trends, access benchmarks, and strategically target interventions designed to improve health outcomes.

PolicyMap contains a wide array of community-level health data, ranging from incidence of diseases and chronic conditions, to locations of health infrastructure, to key social determinants of health. PolicyMap uses more than 150 authoritative public and proprietary data sources with the ability to access over 37,000 data indicators.

The DHCD will benefit from PolicyMap by continuing to strengthen its leadership and partnerships in local health and wellness issues by having access to a reliable and current data platform. The inclusion of PolicyMap onto the DHCD website will also increase traffic to our website. PolicyMap will be a valuable tool for local community-based organizations and other service providers in their efforts to access and interpret reliable data sets, thus making their funding requests, programming, and allocation of resources more data-driven.

Fiscal Impact: \$5005.54 for a 15-month Premium Subscription – the FY20 Annual Budget will accommodate the subscription.

**Premium Subscriber Agreement
 Order Form**

Effective Date: October 1, 2019

Premium Subscriber

Subscriber Desert Healthcare District and Foundation
 Type of organization Government/Healthcare
 Postal Address _____
 Street Address _____
 City/State/Province _____
 Zip/Postal Code _____
 Country USA

Primary Contact for Subscriber

Name	_____	Address	_____
Title	_____	City	_____
Telephone	_____	State/Province	_____
Fax	_____	Zip/Postal Code	_____
Email	_____	Country	_____

Billing Contact (if different)

Name	_____	Address	_____
Title	_____	City	_____
Telephone	_____	State/Province	_____
Fax	_____	Zip/Postal Code	_____
Email	_____	Country	_____

Subscription

Subscription Type PolicyMap Premium Subscription
 Effective Date October 1, 2019
 Start Date October 1, 2019
 Initial Term 15 months: October 1, 2019 to December 31, 2020
 Renewal Term(s) One year each
 Fees (USD\$) See Schedule A
 Payment Terms License Fee Amount due within 45 days of signing. Fees for each Renewal Term will be invoiced 60 days in advance.

Authorized Users Up to 10 Authorized Users permitted, each of whom must be named and email address provided:

Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____
Authorized User	_____	Email	_____

Signatures

The parties execute this Premium Subscriber Agreement, which consists of this Order Form and any other Order Forms signed by the parties, and the Terms and Conditions, as of the Effective Date.

PolicyMap	PolicyMap, Inc	Premium Subscriber	Desert Healthcare District and Foundation
Signature	_____	Signature	_____
Name	Maggie McCullough	Name	_____
Title	CEO	Title	_____
Date	_____	Date	_____

PolicyMap, Inc
Premium Subscriber Agreement
Terms and Conditions

This Premium Subscriber Agreement including the attached Schedules hereto (collectively, “Agreement”) is made and entered into as of the Effective Date set forth on the Order Form, by and between PolicyMap, Inc (“PolicyMap”), a Pennsylvania Benefit Corporation, and the individual or entity identified in the Order Form (“Subscriber”). This Agreement and the terms of use (the “Terms of Use”) on PolicyMap’s website and services (collectively, the “Service”) shall govern the terms and conditions of Subscriber’s access to and use of the Service, including the use of the data and other information available on the Service. If applicable, this Agreement also covers the use of software provided by PolicyMap (the “Widget”).

1. LICENSE AND PERMITTED USES

- 1.1. The Service includes and provides access to and use of PolicyMap’s data warehouse and mapping tools to provide Subscriber with online access to data, tables, charts, reports and maps, all of which are the proprietary and intellectual properties of PolicyMap and its suppliers. The Service is protected by the terms of this Agreement as well as domestic and foreign contractual and intellectual property laws including but not limited to copyright, trademark, patent, and trade secret laws. Access to and use of the Service shall be governed by the terms of this Agreement and the Terms of Use.
- 1.2. Upon both parties signing this Agreement, and subject to PolicyMap receiving payment in full, PolicyMap grants to Subscriber a non-exclusive, non-transferable, non-sublicensable, limited license to access and use the Service for the term of the subscription as identified in the Order Form (unless this Agreement or the Terms of Use are terminated sooner) for Subscriber’s internal business purposes only. Subscriber will identify each user (each, an “Authorized User”) in the Order Form or by any other process identified by PolicyMap. The number of Authorized Users may not exceed the limit stated in the applicable Order Form. Subscriber is responsible for the actions and omissions of its Authorized Users as if they were the actions and omissions of Subscriber.
- 1.3. Subscriber and its Authorized Users may not do any of the following that PolicyMap specifies as prohibited (each, a “Prohibited Use”), including but not limited to:
 - 1.3.1. Decompile, reverse engineer, disassemble or create derivative works of the Service;
 - 1.3.2. Remove or obscure any proprietary notices including, but not limited to, any and all copyright, trademark and patent designations contained in the Service;
 - 1.3.3. Use the Service for advertising or exploitation
 - 1.3.4. Rental, lease, sell or resell the Service or access to the Service or use of the Service;
 - 1.3.5. Market, sell or make commercial use of the Service other than for Subscriber’s own, direct benefit; or
 - 1.3.6. Systematically collect and use any data or information on or from the Service, including by means of any data spiders, robots, or similar data gathering, mining or extraction methods.
- 1.4. Subscriber may provide PolicyMap with datasets for upload, as listed in Schedule A (“Subscriber Data”). The Subscriber Data (if any) will only be made available through Subscriber’s own internal access and will not be redistributed to the public, unless specified otherwise by the Subscriber. PolicyMap will take reasonable steps to treat all Subscriber Data uploaded into PolicyMap on behalf of Subscriber as private and confidential. All right, title and interest in and to the Subscriber Data shall be retained by Subscriber. If Subscriber wishes to change the confidential treatment of Subscriber Data, Subscriber must notify PolicyMap in writing.
- 1.5. If Subscriber has opted to have a PolicyMap Widget made available for use on Subscriber’s website or other services (as noted on Schedule A), the following terms apply:
 - 1.5.1. Subscriber and its Authorized User may use the Widget to create interactive maps for the Subscriber’s website.
 - 1.5.2. PolicyMap will provide Subscriber with the ability to display certain data from the PolicyMap platform within its own website through the delivery of an iframe code to embed on its website.
 - 1.5.3. If stated in Schedule A or otherwise agreed by the parties, PolicyMap will provide Subscriber with the ability to use the Widget to display Subscriber Data.

- 1.5.4. Current uses of the Widget as of the Effective Date include building and searching a map by address, city, county, zip code, MSA, Congressional district and school district. In addition, Authorized Users will be able to pan and zoom, click on a map to see values, print low or high resolution maps, and download data via the Widget. PolicyMap reserves the right to modify the Widget during the term of this Agreement.
- 1.5.5. PolicyMap will use commercially reasonable efforts make the PolicyMap platform and the Widget available via Subscriber's website, as detailed in the accompanying document entitled "PolicyMap Platform Availability and Data Security".
- 1.6. All trade names, marks, logos, page headers, custom graphics, button icons and domain names (collectively, "Trademarks") of each party remain the Trademarks of such party. Each party grants the other party sufficient rights to use the other party's Trademarks solely to implement this Agreement and advertise the business relationship between the parties. Any and all goodwill generated by use of a Trademark owned by a party shall be for the benefit of that party.

2. SUBSCRIBER'S REPRESENTATIONS AND WARRANTIES

- 2.1. Subscriber represents, warrants and covenants that Subscriber and its Authorized Users will:
 - 2.1.1. use the Service in accordance with this Agreement and the Terms of Use;
 - 2.1.2. at all times comply with all applicable laws, rules and regulations in using the Service;
 - 2.1.3. not knowingly or otherwise introduce to or through the Service any viruses or other items of a destructive nature.
- 2.2. Subscriber represents, warrants and covenants that the Subscriber Data does not violate or infringe the intellectual property rights or other rights of any third party.

3. OBLIGATIONS

- 3.1. PolicyMap will offer reasonable levels of continuing support to assist Subscriber and its Authorized Users in the use of the Service. PolicyMap will provide a help page accessible to all Authorized Users on the the Service. The help page will provide access to materials, which may include a training manual, video tutorials and a help blog, as well as access to PolicyMap's help desk via email or telephone. PolicyMap's sole liability and Subscriber's sole remedy for any breach of PolicyMap's warranties is that PolicyMap will use reasonable efforts to promptly correct any failure of the Service to operate in the manner documented by PolicyMap in the help pages and written documentation created and provided by PolicyMap.
- 3.2. PolicyMap will provide appropriate training to Subscriber and its Authorized Users relating to the use of the Service. PolicyMap will provide regular system and project updates to Subscriber as they become available.
- 3.3. Access to the Service shall be controlled by PolicyMap through Internet Protocol ("IP") addresses or other methods at PolicyMap's sole discretion. Subscriber shall be responsible for providing lists of valid sets of IP addresses to PolicyMap, and updating such lists if needed. For the avoidance of doubt, Subscriber is responsible for establishing and maintaining hardware and Internet access to the Service.
- 3.4. Subscriber shall use reasonable efforts to limit the Service access to its Authorized Users. If a party learns of any Prohibited Uses, it will notify the other party, and the parties will thereafter cooperate to identify and use reasonable efforts to terminate the Prohibited Use. PolicyMap may suspend access to the Service while diagnosing and trying to resolve any Prohibited Use, in which case, PolicyMap shall use reasonable efforts to contact the Subscriber prior to any suspension of access and, if applicable, to restore access promptly following successful resolution of the matter.
- 3.5. As part of the subscription process, Subscriber (through its Authorized Users) shall maintain a password and a subscriber ID. Subscriber shall provide PolicyMap with certain registration information, all of which must be accurate and updated as appropriate. Subscriber shall be responsible for maintaining the confidentiality of all passwords of Subscriber and its Authorized Users. Subscriber shall immediately notify PolicyMap of any known or suspected breach of security, including loss, theft or unauthorized disclosure of a password.
- 3.6. Subscriber is responsible for all usage or activity with Subscriber's subscription, including, but not limited to, use of Services by any Authorized User. In the event Subscriber wishes to delete or substitute Authorized Users, Subscriber shall notify PolicyMap in accordance with PolicyMap's current process, and PolicyMap will then cancel any deleted ID and password, or substitute one Authorized User for a new one. By adding Authorized Users beyond the upper limit stated on the Order Form, Subscriber consents to paying the additional fees then charged by PolicyMap for the larger number of Authorized Users.

- 3.7. The Service contains Terms of Use that notify Authorized Users of the Permitted Uses and Prohibited Uses. Authorized Users will not be required to click-through the Terms of Use in order to access the Service.
- 3.8. PolicyMap makes reasonable efforts to remain compliant with Section 508 of the Rehabilitation Act of 1973 (29 U.S.C. §794d), as amended.
- 3.9. Each party (the “Indemnitor”) agrees to indemnify and hold harmless the other party (the “Indemnitee”) for any losses, claims, damages, awards, penalties, or injuries incurred by the Indemnitee (including reasonable attorney’s fees) that result from a third party’s allegations or claims that the Indemnitor infringed the copyright or other intellectual property rights of the third party bringing the claim (“Claim”). The Indemnitee shall promptly notify the Indemnitor in writing of any Claim. The Indemnitor shall have the sole right to defend such Claims at its own expense, while the Indemnitee shall provide, at the Indemnitor’s expense, such assistance in investigating and defending such Claims as the Indemnitor may reasonably request. After the Indemnitor accepts the Claim, an Indemnitee may have its counsel assist counsel for the Indemnitor in an advisory capacity at the Indemnitee’s sole cost and expense. This indemnity shall survive the termination of this Agreement.

4. DISCLAIMER OF WARRANTIES AND LIMITATIONS OF LIABILITY

- 4.1. SUBSCRIBER AGREES THAT USE OF THE SERVICE AND THE WIDGET IS AT SUBSCRIBER’S SOLE RISK. THE SERVICE IS PROVIDED ON AN "AS-IS" AND "AS AVAILABLE" BASIS. POLICYMAP IS NOT RESPONSIBLE FOR PRINTING, TYPOGRAPHICAL OR OTHER ERRORS.
- 4.2. NEITHER POLICYMAP NOR ANY OF POLICYMAP’S LICENSORS, SUPPLIERS OR BUSINESS PARTNERS REPRESENT OR WARRANT THAT THE SERVICE WILL BE UNINTERRUPTED OR ERROR-FREE, OR THAT DEFECTS, IF ANY, WILL BE CORRECTED; NOR DOES POLICYMAP OR ITS SUPPLIERS OR BUSINESS PARTNERS MAKE ANY REPRESENTATIONS OR WARRANTIES ABOUT THE ACCURACY, RELIABILITY, CURRENCY, QUALITY, PERFORMANCE OR SUITABILITY OF THE SERVICE OR ANY DATA.
- 4.3. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, TO THE FULLEST EXTENT PERMISSIBLE PURSUANT TO APPLICABLE LAW, POLICYMAP AND EACH OF POLICYMAP’S SUPPLIERS AND BUSINESS PARTNERS DISCLAIM ALL WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF TITLE, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT.
- 4.4. UNDER NO CIRCUMSTANCES SHALL POLICYMAP OR ANY OF POLICYMAP’S SUPPLIERS, BUSINESS PARTNERS, EMPLOYEES, DIRECTORS, OFFICERS OR AGENTS, BE LIABLE FOR ANY, PUNITIVE, EXEMPLARY, CONSEQUENTIAL, INCIDENTAL, INDIRECT OR SPECIAL DAMAGES ARISING FROM OR IN CONNECTION WITH THE SERVICE, REGARDLESS OF ANY THEORY OF BREACH OF CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHERWISE, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.
- 4.5. In the event that PolicyMap is liable for any damages directly arising in connection with the Service, the Widget, or this Agreement, the aggregate liability of PolicyMap shall not exceed the amounts actually paid to PolicyMap by Subscriber, if any, for the one-year period preceding the first event that gave rise to such damages.
- 4.6. APPLICABLE LAW MAY NOT ALLOW THE LIMITATIONS OF LIABILITY SET FORTH ABOVE, SO THESE LIMITATIONS OF LIABILITY MAY NOT APPLY TO SUBSCRIBER. THE LIMITATIONS OF LIABILITY SET FORTH IN THIS AGREEMENT ARE INDEPENDENT AND SHALL SURVIVE ANY FAILURE OF ANY REMEDY (EXCLUSIVE OR OTHERWISE).

5. TERM, TYPE AND PRICE

- 5.1. The term of Subscriber’s subscription and start date are stated on the Order Form (the “Initial Term”); provided that Subscriber’s subscription shall not be activated unless and until PolicyMap is in receipt of a fully-executed copy of this Agreement. PolicyMap will provide Subscriber an opportunity to renew the subscription 60 days prior to the expiration of this Agreement at PolicyMap’s then-current prices (each, a “Renewal Term”) or any previously agreed to price as noted on the Order Form. The Initial Term and any Renewal Terms shall be collectively referred to as the “Term.” If Subscriber chooses not to renew its subscription, it must notify PolicyMap within 30 days of the expiration of the Term in order to cancel the subscription. If PolicyMap does not receive notice of cancellation 30 days prior to termination, the subscription will automatically renew for another Renewal Term.
- 5.2. In the event that either party believes that the other party materially has breached any obligations under this Agreement, or if PolicyMap believes that the Subscriber has exceeded the scope of the license granted by this Agreement, the non-breaching party shall notify the breaching party in writing. The breaching party shall have ten (10) calendar days from

the receipt of notice to cure the alleged breach and to notify the non-breaching party in writing that cure has been effected. If the breach is not cured within the ten (10) calendar day period, the non-breaching party shall have the right to terminate this Agreement without further notice.

- 5.3. The prices for the Service are listed on each applicable Order Form signed by the parties, and on Schedule A. Unless otherwise set forth on an invoice or an Order Form, all fees are due upon receipt of invoice and shall be paid to PolicyMap, Inc, 1315 Walnut St, Suite 1500, Philadelphia PA 19107, Attn: Accounts Payable (or any other address subsequently specified by PolicyMap) within 45 days of the date of the invoice. A late fee of 1.5% will be applied to any invoice not paid within 45 days.

6. GENERAL

- 6.1. Neither party shall assign its rights, duties, or obligations under this Agreement to any person or entity, in whole or in part; provided however that either party may assign no less than all of its rights under this Agreement to a successor entity as a result of a merger, acquisition or re-organization. Any permitted assignment shall be effective upon receipt of written notice by the non-assigning party.
- 6.2. If any provision of this Agreement is found by any court or other tribunal of competent jurisdiction to be invalid or unenforceable, the invalidity of such provision shall not affect the other provisions of this Agreement, and all provisions not affected by such invalidity shall remain in full force and effect. Either party's failure to exercise or enforce any right or provision of this Agreement will not be deemed to be a waiver of such right or provision.
- 6.3. If the Subscriber maintains its principal office in the United States, then the law of the State in which Subscriber's principal office is located, as well as United States federal law, shall govern this Agreement, without reference to any conflicts of laws principles. If Subscriber maintains its principal office outside the United States of America, then the law of the Commonwealth of Pennsylvania, and the federal law of the United States of America, shall govern this Agreement, without reference to any conflicts of laws principles. The U.N. Convention on Contracts for the International Sales of Goods shall not apply to this Agreement.
- 6.4. Any controversy or claim between the parties or arising out of this Agreement, its performance or breach shall be determined by one arbitrator in binding arbitration administered by the American Arbitration Association pursuant to its Commercial Arbitration Rules. The arbitration hearings will be conducted, and all testimony will be entered, via audio conference and video conference, and there shall be no in-person hearings. The arbitral award will be final and binding on the parties, and may be entered and enforced in any court of competent jurisdiction. However, if Subscriber is an institution of a State in the United States, and if the laws of the State require that any dispute be brought in a court of the State, then any dispute will be brought in a court of competent jurisdiction in that State pursuant to such laws.

Schedule A
Premium Subscription Order Details

Premium Subscription - \$5,005.54 per year (though with current discount, initial term covers 15 month period) / 1–10 Authorized Users as listed on Order Forms.

Includes:

- All data (public and private datasets)
- All functionality (mapping, charts, reports, custom regions)
- Online and group training
- Ability to self-service upload unlimited amounts of your own address-based data using the spreadsheet data loader.
- Creation of one (1) interactive map Widget on your internal and/or public facing website(s).
- PolicyMap data services to geocode up to 5,000 addresses OR create 5 thematic data layers (included in premium subscription price).

Total: \$5,005.54

**POLICYMAP
PLATFORM AVAILABILITY, SUPPORT AND DATA SECURITY**

“Platform Availability” means the percentage of hours in a calendar month that the Service is available, excluding scheduled maintenance and/or critical maintenance (“Maintenance”). PolicyMap will use reasonable efforts to make the Service available 24 hours per day, 7 days per week, with the exception of Maintenance periods. PolicyMap will provide Subscriber notice of any Maintenance and will use reasonable efforts to limit extended periods of Maintenance to Saturdays and Sundays, between 11 pm and 2 am US Eastern time. Any Service downtime that is explicitly the responsibility of PolicyMap’s hosting provider (initially, Amazon), and is acknowledged by the hosting provider, counts as Maintenance time and not against the reimbursement schedule below.

If PolicyMap fails to meet the Platform Availability standards during any calendar month, then PolicyMap will provide Subscriber a credit as a percentage of that calendar month’s Service Fees (“Credit”) as shown below. Credits may only be applied against subsequent Service fees.

<u>Credits based on Platform Availability</u>	
<u>Platform Availability during a Calendar Month</u>	<u>Credits</u>
99.5% - 100.0%	-0-
96.5% - 99.4%	15% of that calendar month’s Service fee
94.0% - 96.4%	20% of that calendar month’s Service fee
< 94%	50% of that calendar month’s Service fee

Should the Subscriber’s Service fail to comply with PolicyMap’s documentation (independent of any Platform Availability issues pursuant to the above provisions), then Subscriber must promptly contact PolicyMap’s support team by telephone or email to request support services (“Support”), and PolicyMap’s Support team will review the notice, assign a level of response (“Level”), and respond, as follows.

<u>Level</u>	<u>Problem</u>	<u>Support Availability</u>	<u>Response Time</u>	<u>Status Reports</u>
Level One	Basic administrative request or identification of non-material or non-critical errors in the service	9 am-5 pm Monday-Friday*	Acknowledgement of Support request within two business days; ticket added to current application development cycle; resolution in subsequent release.	None.
Level Two	Intermittent Service availability that is minimally disruptive to Service use.	9 am-5 pm Monday-Friday*	Acknowledgement of Support request within 12 hours; PolicyMap will devote resources to resolve issue; resolve ASAP (and if possible no later than 24 hours after acknowledgement).	Upon resolution.
Level Three	Total service unavailability; intermittent service availability that is materially disruptive to service use.	24 hours/day, 7 days/week	Acknowledgement of issue within 1 hour; resolve ASAP (and if possible no later than 12 hours after acknowledgement).	Within 1 hour after initiation of response; upon resolution.
*All times are US Eastern local time, and available days exclude US federal holidays. For Support requested outside of specified hours, requests will be initiated on the next business day.				

Statement on Data Security:

PolicyMap (which includes all Services including site licenses), and all associated data as of the Effective Date are hosted on Amazon’s Web Services infrastructure, at a hosting facility located in Northern Virginia. Our database development group maintains the security of the Service production application and all associated data via firewall facilities provided by the Amazon Web Service. Only ports 80 and 443 are publicly accessible, which is consistent with standard implementation of World Wide Web protocols. The software delivering data from these ports is routinely scanned by Security Metrics for PCI compliance or compliance with similar metrics.

Administrative access to servers hosting the Service at the hosting provider is currently done through the Secure Shell program (also known as SSH) as of the Effective Date, which implements encrypted communication between the administrator and the machine being administered. The SSH server is the only mechanism for data to be uploaded to PolicyMap systems at the hosting provider, and also the only mechanism for direct administration of the hosting provider’s environment. Access to the SSH server’s port on all systems is strictly limited to the IP addresses of the PolicyMap offices in Philadelphia, Baltimore and Los Angeles, and the ability to access and use the SSH server is limited to those personnel having a need for such access. All development personnel are required to sign PolicyMap’s form of nondisclosure agreement.