

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

DESERT HEALTHCARE DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

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 of 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.

	Table A		
	6/30/2019	6/30/2018	Change
Assets:			
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

	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>
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	<u>\$ 8,301,097</u>	<u>\$ 7,839,945</u>	<u>\$ 461,152</u>
Expenses:			
Grants program	\$ 3,626,871	\$ 5,076,039	\$ (1,449,168)
Administrative Expense	2,552,978	3,068,696	(515,718)
Total Expense	<u>\$ 6,179,849</u>	<u>\$ 8,144,735</u>	<u>\$ (1,964,886)</u>
Nonoperating Income(Expenses)	<u>\$ 2,131,260</u>	<u>\$ (7,737)</u>	<u>2,138,997</u>
Net Income (Loss)	<u>\$ 4,252,508</u>	<u>\$ (312,527)</u>	<u>\$ 4,565,035</u>

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

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DESERT HEALTHCARE DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2019

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	2019	2018
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	25,793,763	12,276,610
NON-CURRENT ASSETS		
Investments	34,736,545	44,290,312
Capital assets, net	11,972,558	12,382,164
Total non-current assets	46,709,103	56,672,476
DEFERRED OUTFLOWS		
Deferred Outflows of Resources:		
Pension plans	1,159,189	1,057,842
OPEB	14,147	22,144
Total deferred outflows of resources	1,173,336	1,079,986
TOTAL ASSETS AND DEFERRED OUTFLOWS	73,676,202	70,029,072
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	7,842,364	3,207,648
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	8,982,739	13,644,386
DEFERRED INFLOWS		
Deferred Inflows of Resources:		
Pension plans	1,643,743	2,222,190
Total deferred inflows of resources	1,643,743	2,222,190
TOTAL LIABILITIES AND DEFERRED INFLOWS	18,468,846	19,074,224
NET POSITION		
Net investment in capital assets	11,972,558	12,382,164
Unrestricted	43,234,798	38,572,684
TOTAL NET POSITION	\$ 55,207,356	\$ 50,954,848

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	<u>125,687</u>	<u>166,904</u>
Total revenues	<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	<u>353</u>	<u>2,921</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	<u>(113,967)</u>	<u>(119,055)</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	<u>-</u>	<u>(9,380)</u>
Net position at beginning of fiscal year, restated	<u>50,954,848</u>	<u>51,267,375</u>
End of fiscal year	<u><u>\$ 55,207,356</u></u>	<u><u>\$ 50,954,848</u></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	<u>1,244,087</u>	<u>1,177,107</u>
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><u>\$ 12,052,795</u></u>	<u><u>\$ 2,004,735</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	<u><u>\$ 12,052,794</u></u>	<u><u>\$ 2,004,735</u></u>

(Continued)

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

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

	Private- Purpose Trust Fund	
	2019	2018
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	1,967,227	4,496,153
OTHER ASSETS		
Contributions receivable - charitable remainder trusts	189,239	188,929
Investments	5,853,791	2,499,286
Total other assets	6,043,030	2,688,215
TOTAL ASSETS	8,010,257	7,184,368
LIABILITIES		
Current liabilities:		
Accounts payable	70,955	83,980
Grants payable - current portion	3,384,450	3,621,167
Total current liabilities	3,455,405	3,705,147
Long-term liabilities:		
Grants payable - long-term	2,260,000	1,200,000
Total long-term liabilities	2,260,000	1,200,000
Total liabilities	5,715,405	4,905,147
NET POSITION	\$ 2,294,852	\$ 2,279,221

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	<u>\$ 54,082,111</u>		<u>\$ 26,486,695</u>	<u>\$ 23,269,821</u>	<u>\$ 464,545</u>	<u>\$ 704,164</u>	<u>\$ 3,156,886</u>

* 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	<u>\$ 56,825,698</u>		<u>\$ 30,015,893</u>	<u>\$ 25,054,327</u>	<u>\$ 1,014,808</u>	<u>\$ -</u>	<u>\$ 740,670</u>

* 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

Investments by fair value	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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

Investments by fair value	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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:

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

Charitable Remainder Trusts

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

Trust 4 (dated October 3, 1989): The lesser of the trust income or 8% of the net fair market value of trust assets is to be distributed to the life beneficiary annually. Upon the death of the life beneficiary, 50% of the principal and income not required to have been distributed to the life beneficiary shall become the property of the Foundation, to be used for cancer treatment, or for general purposes if a cure for cancer has been found. At December 31, 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:

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

	Balance at July 1, 2017	Claims Paid	Changes in Estimates	Balance at June 30, 2018	Due Within One Year
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:

	Discount Rate <u>1% Lower</u>	Valuation <u>Discount Rate</u>	Discount Rate <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:

	Trend <u>1% Lower</u>	Valuation <u>Trend</u>	Trend <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 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 (3.56%)</u>	<u>Current Discount Rate (4.56%)</u>	<u>1% Increase (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*

	2019	2018	2017	2016	2015
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)	\$ 3,395,623	\$ 3,277,793	\$ 2,875,121	\$ 9,644,702	\$ 7,773,949
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	<u>(20,714)</u>	<u>(18,530)</u>
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	<u>-</u>	<u>-</u>
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><u>\$ 87,973</u></u>	<u><u>\$ 108,687</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>0.00%</u>	<u>0.00%</u>
 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.