# DESERT HEALTHCARE DISTRICT

## PALM SPRINGS, CALIFORNIA

## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

## JUNE 30, 2017

DESERT HEALTHCARE DISTRICT

TABLE OF CONTENTS

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
433 N. CAMDEN DRIVE, SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 HANNUM AVE., SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

# INDEPENDENT AUDITOR'S REPORT

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

## Report on Financial Statements

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, 2017, 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, 2017, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2017, 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.

## 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 4 through 8 and the Schedule of Changes in the Net Pension Liability and Related Ratios on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Report on Comparative Summarized Information*

We have previously audited the District's 2016 financial statements, and our report dated October 5, 2016 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, 2016, is consistent, in all material respects, with the audited financial from which it has been derived.

Moss, Levy & Hartzheim, LLP
Culver City, California
October 5, 2017

The Desert Healthcare District (the District) has issued its financial statements for the fiscal years ended June 30, 2017 and June 30, 2016 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 2017 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.

### 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 2017 and 2016.

**Table A**

| | 6/30/2017 | 6/30/2016 | Change |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | $ 1,431,371 | $ 1,330,982 | $ 100,389 |
| Investments | 54,644,090 | 57,516,417 | (2,872,327) |
| Capital assets, net | 12,792,784 | 13,421,481 | (628,697) |
| All Other Assets | 340,068 | 710,478 | (370,410) |
| **Total Assets** | $ 69,208,314 | $ 72,979,358 | $ (3,771,044) |
| **Deferred Outflows:** | | | |
| GASB 68 Reporting for Pension Plans | $ 1,234,531 | $ 1,647,999 | $ (413,468) |
| **Total Deferred Outflows** | $ 1,234,531 | $ 1,647,999 | $ (413,468) |
| **Liabilities:** | | | |
| Grants payable | $ 12,449,038 | $ 14,011,642 | $ (1,562,604) |
| Net Pension Liability | 2,883,995 | 9,644,702 | (6,760,707) |
| All Other Liabilities | 590,996 | 731,420 | (140,424) |
| **Total Liabilities** | $ 15,924,029 | $ 24,387,764 | $ (8,463,735) |
| **Deferred Inflows:** | | | |
| GASB 68 Reporting for Pension Plans | $ 3,242,061 | $ 717,310 | $ 2,524,751 |
| **Total Deferred Inflows** | $ 3,242,061 | $ 717,310 | $ 2,524,751 |
| **Net Assets:** | | | |
| Net investment in capital assets | $ 12,792,784 | $ 13,421,481 | $ (628,697) |
| Unrestricted | 37,483,971 | 35,100,802 | 2,383,169 |
| Restricted | 1,000,000 | 1,000,000 | - |
| **Total Net Position** | $ 51,276,755 | $ 49,522,283 | $ 1,754,472 |

The $1,754,472 increase in Total Net Position is due to the net income of $1,754,472 for the current fiscal year ended June 30, 2017. This compares to a net income of $3,340,544 for the fiscal year ended June 30, 2016. The decrease is primarily due to increased grant expenses of $1,375,619 and increased unrealized loss on investments of $620,707. The $2,872,327 decrease in Investments is due primarily to a $3,400,000 transfer of funds from the Investments account to reduce the Net Pension Liability. The $628,697 decrease in Capital Assets is due primarily to depreciation of capital assets. The $370,410 decrease in All Other Assets is due to a temporary receivable for unexpended grant funds of $368,359 in 2016 received in 2017. The $413,468 increase in Deferred Outflows is due to a timing difference in the actuarial valuation for GASB 68 reporting for the Retirement Protection Plan. The $1,562,604 decrease in Grants Payable is due primarily to higher grant disbursements than new accrued grants. The $6,760,707 decrease in Net Pension Liability is due primarily to a $3,400,000 transfer of funds from the Investments account to reduce the Net Pension Liability and an increase of the discount rate from 2.83% to 5.00%. The $2,524,751 increase in Deferred Inflows is due to a timing difference in the actuarial valuation for GASB 68 reporting for the Retirement Protection Plan.

### 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; 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 and Palm Desert (West of Cook Street) 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 2017 results to Fiscal Year 2016.

Table B

| | 6/30/17 | 6/30/16 | Change |
|---|---|---|---|
| **Revenue:** | | | |
| Property Tax Revenue | $ 6,082,391 | $ 5,794,197 | $ 288,194 |
| Rental income | 1,178,485 | 1,141,312 | 37,174 |
| All other income | 213,133 | 278,566 | (65,433) |
| **Total Revenue** | $ 7,474,009 | $ 7,214,075 | $ 259,934 |
| **Expenses:** | | | |
| Grants program | $ 3,453,749 | $ 2,078,129 | $ 1,375,619 |
| Administrative Expense | 2,177,287 | 2,673,227 | (495,940) |
| **Total Expense** | $ 5,631,036 | $ 4,751,356 | $ 879,680 |
| Nonoperating Income(Expenses) | $ (88,501) | $ 877,825 | (966,326) |
| **Net Income (Loss)** | $ 1,754,472 | $ 3,340,544 | $ (1,586,072) |

**The Statements of Revenues, Expenses, and Change in Net Position (Continued)**

**Revenue**

Property taxes are the District's primary source of operating revenues. The property tax revenue for the fiscal year ended June 30, 2017 was $6,082,391 which was an increase of $288,194 from the fiscal year ended June 30, 2016.

Rental income of $1,178,485 for the fiscal year ended June 30, 2017 was $37,174 higher than the fiscal year ended June 30, 2016.

All other income for the fiscal year ended June 30, 2017 decreased $65,433 compared to the fiscal year ended June 30, 2016. The increase was due primarily to a decrease in investment income.

**Expenses**

Grant Program expense for the fiscal year ended June 30, 2017 increased by $1,375,619 compared to the fiscal year ended June 30, 2016. This is due primarily to increased 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, 2017 decreased $495,940 from the fiscal year ended June 30, 2016. The decrease is due to various expenses including lower pension plan expense of $955,989 for the GASB 68 Net Pension Liability; lower General and Administrative expenses of $79,960, primarily due to previous year CEO severance compensation of $88,000; higher election fees of $196,467 due to an election held in the current fiscal year; higher expense of $34,407 at Las Palmas Medical Plaza, primarily due to higher Professional Fees and Property Taxes expense; higher professional fees expense of $349,795, including higher legal expense of $46,718 and higher professional services fees of $290,958 for market analysis & assessments, community polling, and other services to the AB2414 boundary expansion/LAFCO application and the District/Foundation's 3-year strategic planning process.

## CAPITAL ASSETS

At June 30, 2017, the District had $21,939,868 in capital assets and $9,147,084 accumulated depreciation, resulting in $12,792,784 net capital assets. At June 30, 2016, the District had $21,936,462 in capital assets and $8,514,981 in accumulated depreciation, resulting in $13,421,481 net capital assets.

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

Table C

| | Balance 6/30/15 | Net Additions | Net Retirements | Balance 6/30/16 | Net Additions | Net Retirements | Balance 6/30/17 |
|---|---|---|---|---|---|---|---|
| Cost | $ 21,982,396 | $ 68,043 | $ (113,977) | $ 21,936,462 | $ 4,929 | $ (1,523) | $ 21,939,868 |
| Acc. Depreciation | (7,996,846) | (632,112) | 113,977 | (8,514,981) | (632,916) | 812 | (9,147,084) |
| Capital Assets, Net | $ 13,985,550 | $ (564,069) | $ - | $ 13,421,481 | $ (627,987) | $ (711) | $ 12,792,784 |

## DEBT ADMINISTRATION

The District has no outstanding debt.

## ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Fiscal Year 2018 budget reflects revenues of $9,062,621 and operating expenses of $9,140,038. Capital expenditures are budgeted at $738,504. The Desert Healthcare District/Foundation adopted a new 3-Year Strategic Plan, with four Community Health Focus Areas: Homelessness; Primary Care and Behavioral Health Access; Healthy Eating and Active Living; and Quality, Safety, Accountability, and Transparency.

During the fiscal year ended June 30, 2017, the District awarded $3,396,365 in new grants and distributed grants in the amount of $4,889,943. Projected new grants to be awarded for the fiscal year 2017–2018 amount to $4,700,000 and distributions for grants could possibly total $17,136,870 due to the existing grant liability as of June 30, 2017 and the projected grant awards.

The District has also established a reserve fund of approximately $56,000,000 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.

## 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, 2017

### WITH COMPARATIVE TOTALS AS OF JUNE 30, 2016

| | 2017 | 2016 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 1,431,371 | $ 1,330,982 |
| Investments | 17,257,100 | 16,191,150 |
| Accounts receivable - net | 293,905 | 642,045 |
| Prepaid items and deposits | 46,164 | 68,433 |
| Total current assets | 19,028,540 | 18,232,610 |
| **NON-CURRENT ASSETS** | | |
| Investments | 37,386,990 | 41,325,267 |
| Capital assets, net | 12,792,784 | 13,421,481 |
| Total non-current assets | 50,179,774 | 54,746,748 |
| **DEFERRED OUTFLOWS** | | |
| Deferred Outflows of Resources: | | |
| Pension Plans | 1,234,531 | 1,647,999 |
| Total deferred outflows of resources | 1,234,531 | 1,647,999 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS** | 70,442,845 | 74,627,357 |
| **CURRENT LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrual liabilities | 317,854 | 384,267 |
| Grants payable | 1,993,397 | 2,707,889 |
| Compensated absences | 46,835 | 80,808 |
| Disability claims, reserve, current portion | 14,803 | 14,803 |
| Retired directors medical benefits, current portion | 23,000 | 29,000 |
| Total current liabilities | 2,395,889 | 3,216,767 |
| **NON-CURRENT LIABLILITIES** | | |
| Grants payable | 10,455,641 | 11,318,022 |
| Long-term disability claims reserve | 62,215 | 72,078 |
| Long-term retired director's medical benefits | 72,250 | 76,125 |
| Net pension liability | 2,883,995 | 9,644,702 |
| Deposits payable | 54,039 | 60,070 |
| Total non-current liabilities | 13,528,140 | 21,170,997 |
| **DEFERRED INFLOWS** | | |
| Deferred Inflows of Resources: | | |
| Pension Plans | 3,242,061 | 717,310 |
| Total deferred inflows of resources | 3,242,061 | 717,310 |
| **TOTAL LIABILITIES AND DEFERRED INFLOWS** | 19,166,090 | 25,105,074 |
| **NET POSITION** | | |
| Net investment in capital assets | 12,792,784 | 13,421,481 |
| Unrestricted | 37,483,971 | 35,100,802 |
| Restricted | 1,000,000 | 1,000,000 |
| **TOTAL NET POSITION** | $ 51,276,755 | $ 49,522,283 |

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, 2017**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | 2017 | 2016 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Property taxes | $ 6,082,391 | $ 5,794,197 |
| Rental income | 1,178,485 | 1,141,312 |
| Other income | 213,133 | 278,566 |
| Total revenues | 7,474,009 | 7,214,075 |
| **OPERATING EXPENSES** | | |
| Grant allocations | 3,453,749 | 2,078,129 |
| General expenses | 436,175 | 226,053 |
| Rental expenses | 894,421 | 860,015 |
| Salaries and benefits | 190,859 | 1,180,408 |
| Legal fees | 117,593 | 70,222 |
| Depreciation | 194,979 | 193,754 |
| Other | 146,333 | 142,332 |
| Election fees | 196,467 | |
| Security | 460 | 443 |
| Total expenditures | 5,631,036 | 4,751,356 |
| Income (loss) from operations | 1,842,973 | 2,462,719 |
| **NONOPERATING INCOME (EXPENSES)** | | |
| Investment income | 30,049 | 991,773 |
| Investment expenses | (118,550) | (113,948) |
| Total nonoperating income (loss) | (88,501) | 877,825 |
| Increase (decrease) in net position | 1,754,472 | 3,340,544 |
| **NET POSITION** | | |
| Beginning of fiscal year | 49,522,283 | 46,181,739 |
| End of fiscal year | $ 51,276,755 | $ 49,522,283 |

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, 2017

## WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from County | $ 6,080,531 | $ 5,924,197 |
| Cash received from Grantor | 134,297 | 200,497 |
| Cash payments to suppliers for goods and services | (1,406,821) | (785,521) |
| Cash payments to unfunded pension liability | (3,400,000) | |
| Cash payments to employees for services and benefits | (657,184) | (691,392) |
| Cash payments to grantee | (5,030,622) | (3,599,479) |
| Rental and other operating revenues | 1,601,291 | 869,923 |
| Net cash provided (used) by operating activities | (2,678,508) | 1,918,225 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Purchases and dispositions of capital assets | (4,929) | (68,043) |
| Net cash provided (used) by capital and related financing activities | (4,929) | (68,043) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment earnings | 100 | 858 |
| Net investment sales (purchases) | 2,783,726 | (1,818,831) |
| Net cash provided (used) by investing activities | 2,783,826 | (1,817,973) |
| Net increase (decrease) in cash | 100,389 | 32,209 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR** | 1,330,982 | 1,298,773 |
| **CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR** | $ 1,431,371 | $ 1,330,982 |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION** | | |
| Cash and cash equivalents | $ 1,431,371 | $ 1,330,982 |

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, 2017

## WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | 2017 | 2016 |
|---|---|---|
| Income from operations | $ 1,842,973 | $ 2,462,719 |
| Adjustments to reconciliation of income from operations to net cash provided (used) by operating activities: | | |
| Depreciation | 632,916 | 643,609 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 348,140 | (227,466) |
| Prepaid items and deposits | 22,269 | (30,986) |
| Deferred outflow-pension | 413,468 | (1,624,500) |
| Pension liabilities | (6,760,707) | 1,870,753 |
| Accounts payable and accrued liabilities | (66,413) | 66,002 |
| Grants payable | (1,576,873) | (1,521,350) |
| Deposits payable | (6,031) | 8,008 |
| Compensated absences | (33,973) | 8,873 |
| Gain on disposition of fixed assets | 710 | |
| Long-term disability claims reserve | (9,863) | (14,259) |
| Deferred inflow - pension | 2,524,751 | 287,248 |
| Retired director's medical liability | (9,875) | (10,426) |
| Net cash provided (used) by operating activities | $ (2,678,508) | $ 1,918,225 |

The accompanying notes are an integral part of these financial statements

## DESERT HEALTHCARE DISTRICT

## STATEMENT OF FIDUCIARY NET POSITION
## DESERT HEALTHCARE FOUNDATION
## JUNE 30, 2017

## WITH COMPARATIVE TOTALS AS OF JUNE 30, 2016

| | Private- Purpose Trust Fund | |
|---|---|---|
| | 2017 | 2016 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 2,017,563 | $ 206,897 |
| Grants receivable | 14,477 | 102,047 |
| Prepaid items | 2,500 | 2,800 |
| Accrued interest and dividend receivable | 11,532 | 9,781 |
| Total current assets | 2,046,072 | 321,525 |
| **OTHER ASSETS** | | |
| Contributions receivable - charitable remainder trusts | 185,939 | 204,175 |
| Assets held in charitable remainder trusts | 86,207 | 78,576 |
| Investments | 2,410,881 | 2,352,838 |
| Total other assets | 2,683,027 | 2,635,589 |
| **TOTAL ASSETS** | 4,729,099 | 2,957,114 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 16,312 | 2,838 |
| Deferred grant income | 2,000,000 | |
| Grants payable - current portion | 217,292 | 647,106 |
| Total current liabilities | 2,233,604 | 649,944 |
| Long-term liabilities: | | |
| Grants payable - long-term | 200,000 | 200,000 |
| Total long-term liabilities | 200,000 | 200,000 |
| Total liabilities | 2,433,604 | 849,944 |
| **NET POSITION** | $ 2,295,495 | $ 2,107,170 |

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, 2017**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Private-Purpose Trust Fund | |
|---|---|---|
| | 2017 | 2016 |
| **ADDITIONS** | | |
| Contributions | $ 4,980 | $ 105,305 |
| Grants | 120,306 | 405,752 |
| Interest and dividends | 57,334 | 73,802 |
| Investment gains | 58,111 | 86,039 |
| Sale of mineral rights | 55,000 | |
| Miscellaneous income | 18,406 | |
| Change in value - charitable trusts | (10,605) | 12,333 |
| Total support and revenue | 303,532 | 683,231 |
| **DEDUCTIONS** | | |
| Grants and services | 60,590 | 368,233 |
| Management and general | 54,617 | 64,009 |
| Total expenses | 115,207 | 432,242 |
| **INCREASE IN NET POSITION** | 188,325 | 250,989 |
| **NET POSITION, BEGINNING OF FISCAL YEAR** | 2,107,170 | 1,856,181 |
| **NET POSITION, END OF FISCAL YEAR** | $ 2,295,495 | $ 2,107,170 |

The accompanying notes are an integral part of these financial statements

## 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)

The District has and continues to assess the healthcare needs of the Western Coachella Valley. The District makes grants to healthcare providers who provide needed healthcare services.

## 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 it.

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

*Desert Healthcare Foundation (Foundation)*

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

The foundation’s condensed financial statements are included in 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.

## 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 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.

## 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.

## 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 Assets* — This amount is restricted by external creditors, grantors, contributors, or laws of regulations of other governments.

*Unrestricted Net Assets* — This amount is all net assets that do not meet the definition of "net investment in capital assets", or "restricted net assets."

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 65, the District recognizes deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. Refer to Note 15 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 by the government that is applicable to a future reporting period. Refer to Note 15 for a detailed listing of the deferred outflow of resources that the District has recognized.

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

The District, as described in the Summary of Significant Accounting Policies, entered into a thirty (30) year lease agreement for Desert Regional Medical Center (Hospital) with Tenet Health System Desert, Inc. (Tenet). In the event that Tenet or the District decide to terminate the lease, the District would be responsible for operating the Hospital, which would require upfront operating capital of approximately $47,000,000 to maintain the operations without interruption during the transition period. The District, recognizing this obligation, established an investment fund, with a net value of $55,843,478 as of June 30, 2017, 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, 2014 and May 30, 2021, the District may be obligated to repay Tenet beginning June 1, 2017 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 recently 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 $4,649,645 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 $13,948,935 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, 2017, the prepaid lease balance is $12,128,525. This amount will decrease annually by $3,066,667 plus approximately $210,000 for the value of the electricity provided through May 2018 per terms of the lease agreement. The prepaid lease repayment may be made in full upon lease termination or over a period of five years.

## 3. CASH AND INVESTMENTS

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

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| District's Statement of Net Position: | | |
| Cash and cash equivalents | $ 1,431,371 | $ 1,347,897 |
| Investments | 54,644,090 | 57,499,502 |
| Fiduciary Statement of Net Position: | | |
| Cash and cash equivalents | 2,017,563 | 206,897 |
| Investments | 2,410,881 | 2,352,838 |
| Total Cash and Investments | $ 60,503,905 | $ 61,407,134 |

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Cash and Investments consist of the following: | | |
| Cash on Hand | $ 700 | $ 700 |
| Cash in Bank-District | 231,484 | 921,035 |
| Cash in Bank-Foundation | 1,984,693 | 206,697 |
| Money Market Funds | 1,232,057 | 426,362 |
| Investments | 57,054,971 | 59,852,340 |
| Total Cash and Investments | $ 60,503,905 | $ 61,407,134 |

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.

## 3. CASH, AND INVESTMENTS - Continued

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds | 5 years | None | None |
| Local Agency Investment Fund (State Pool) | N/A | None | $50 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.

## 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, 2017**

| | | Remaining Maturity (in Months) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | 12 Months Or Less | 13 to 24 Months | 25-36 Months | 37-48 Months | More than 49 Months |
| Corporate Bonds* | $ 891,720 | $ 44,204 | $ 35,215 | $ 37,712 | $ 91,133 | $ 683,456 |
| U.S. Government Agencies | 26,678,586 | 9,185,840 | 4,109,620 | 7,620,245 | 2,582,706 | 3,180,175 |
| U.S. Treasury Notes | 28,664,630 | 8,071,240 | 6,204,884 | 2,145,900 | 6,127,190 | 6,115,416 |
| Municipal Bonds | 94,228 | | 20,101 | | | 74,127 |
| Domestic Common Stock* | 725,807 | 725,807 | | | | |
| Total | $ 57,054,971 | $ 18,027,091 | $ 10,369,820 | $ 9,803,857 | $ 8,801,029 | $ 10,053,174 |

* Held by Foundation

**As of June 30, 2016**

| | | Remaining Maturity (in Months) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | 12 Months Or Less | 13 to 24 Months | 25-36 Months | 37-48 Months | More than 49 Months |
| Corporate Bonds* | $ 768,473 | $ 53,207 | $ 60,109 | $ 49,186 | $ 15,821 | $ 590,150 |
| U.S. Government Agencies | 29,841,811 | 6,371,482 | 9,586,350 | 4,235,780 | 6,768,860 | 2,879,339 |
| U.S. Treasury Notes | 27,530,644 | 8,163,880 | 8,525,555 | 4,255,802 | 2,217,593 | 4,367,814 |
| Municipal Bonds | 1,075,749 | 1,003,210 | | | 20,590 | 51,949 |
| Domestic Common Stock* | 635,663 | 635,663 | | | | |
| Total | $ 59,852,340 | $ 16,227,442 | $ 18,172,014 | $ 8,540,768 | $ 9,022,864 | $ 7,889,252 |

* Held by Foundation

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

**As of June 30, 2017:**

| | | | | Rating as of Fiscal Year End | | | |
|---|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | Minimum Legal Rating | Exempt From Disclosure | AAA | AA | A | Not Rated |
| Corporate Bonds* | $ 891,720 | A | $ - | $ - | $ 142,370 | $ 749,350 | $ - |
| U.S. Government Agencies | 26,678,585 | A | | 26,678,585 | | | |
| U.S. Treasury Notes | 28,664,630 | N/A | 28,664,630 | | | | |
| Municipal Bonds | 94,229 | N/A | | 10,682 | 63,566 | 19,981 | |
| Domestic Common Stock* | 725,807 | N/A | | | | | 725,807 |
| Total | $ 57,054,971 | | $ 28,664,630 | $ 26,689,267 | $ 205,936 | $ 769,331 | $ 725,807 |

* Held by Foundation

**As of June 30, 2016:**

| | | | | Rating as of Fiscal Year End | | | |
|---|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | Minimum Legal Rating | Exempt From Disclosure | AAA | AA | A | Not Rated |
| Corporate Bonds* | $ 768,473 | A | $ - | $ 18,042 | $ 110,006 | $ 640,425 | $ - |
| U.S. Government Agencies | 29,841,811 | A | | 29,841,811 | | | |
| U.S. Treasury Notes | 27,530,644 | N/A | 27,530,644 | | | | |
| Municipal Bonds | 1,075,749 | N/A | | 11,141 | 1,043,213 | 21,395 | |
| Domestic Common Stock* | 635,663 | N/A | | | | | 635,663 |
| Total | $ 59,852,340 | | $ 27,530,644 | $ 29,870,994 | $ 1,153,219 | $ 661,820 | $ 635,663 |

* Held by Foundation

## 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, 2017 that represent 5% or more of total District investments (other than U.S. Treasury Notes). These investments are:

Federal Home Loan Banks of $6,702,445 with various maturity dates through June 30, 2020, and interest rates of 1.375-5.000%.
Federal Home Loan Mortgage Corporation of $9,155,460 with various maturity dates through June 30, 2022, and interest rates of 1.250-5.500%.
Federal National Mortgage Association of $10,556,105 with various maturity dates through June 30, 2022, and interest rates of 1.250-4.600%.

There are three investments at June 30, 2016 that represent 5% or more of total District investments These investments are:

Federal Home Loan Banks of $13,457,871 with various maturity dates through June 30, 2019, and interest rates of 1.250-5.375%.
Federal Home Loan Mortgage Corporation of $8,380,820 with various maturity dates through June 30, 2020, and interest rates of 1.250-5.500%.
Federal National Mortgage Association of $8,003,120 with various maturity dates through June 30, 2020, and interest rates of 1.375-5.500%.

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, 2017 and 2016, 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.

## 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, 2017**

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| Investments by fair value | Total | 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 | $ 891,720 | $ 891,720 | $ - | $ - |
| U.S. Government Agencies | 26,678,586 | 26,678,586 | | |
| U.S. Treasury Notes | 28,664,630 | 28,664,630 | | |
| Municipal Bonds | 94,228 | 94,228 | | |
| Domestic Common Stock | 725,807 | 725,807 | | |
| | $ 57,054,971 | $ 57,054,971 | $ - | $ - |

**As of June 30, 2016**

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| Investments by fair value | Total | 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 | $ 27,530,644 | $ 27,530,644 | $ - | $ - |
| U.S. Government Agencies | 29,841,811 | 29,841,811 | | |
| U.S. Treasury Notes | 768,473 | 768,473 | | |
| Municipal Bonds | 1,075,749 | 1,075,749 | | |
| Domestic Common Stock | 635,663 | 635,663 | | |
| | $ 59,852,340 | $ 59,852,340 | $ - | $ - |

## 4. CAPITAL ASSETS

Business-Type Activities

At June 30, 2017 and 2016, the capital assets of the business-type activities consisted of the following:

June 30, 2017

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|---|---|---|---|---|
| Non-depreciable assets | | | | |
| Land | $ 3,988,650 | $ - | $ - | $ 3,988,650 |
| Total non-depreciable assets | 3,988,650 | | | 3,988,650 |
| Depreciable assets: | | | | |
| Buildings and improvements | 17,777,623 | 1,972 | | 17,779,595 |
| Furniture and equipment | 170,189 | 2,957 | (1,523) | 171,623 |
| Total | 17,947,812 | 4,929 | (1,523) | 17,951,218 |
| Less accumulated depreciation | (8,514,981) | (632,916) | 813 | (9,147,084) |
| Total depreciable assets, net | 9,432,831 | (627,987) | (710) | 8,804,134 |
| Total Capital Assets, Net | $ 13,421,481 | $ (627,987) | $ (710) | $ 12,792,784 |

June 30, 2016

| | Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 |
|---|---|---|---|---|
| Non-depreciable assets | | | | |
| Land | $ 3,988,650 | $ - | $ - | $ 3,988,650 |
| Total non-depreciable assets | 3,988,650 | | | 3,988,650 |
| Depreciable assets: | | | | |
| Buildings and improvements | 17,835,414 | 55,241 | (113,032) | 17,777,623 |
| Furniture and equipment | 158,332 | 12,802 | (945) | 170,189 |
| Total | 17,993,746 | 68,043 | (113,977) | 17,947,812 |
| Less accumulated depreciation | (7,996,846) | (632,112) | (113,977) | (8,514,981) |
| Total depreciable assets, net | 9,996,900 | (564,069) | | 9,432,831 |
| Total Capital Assets, Net | $ 13,985,550 | $ (564,069) | $ - | $ 13,421,481 |

## 5. RESTRICTED NET POSITION

The District has $1,000,000 of restricted net position at June 30, 2017 consisting of a contribution received during the June 30, 2012 year restricted to pulmonary research and rehabilitation and/or for the purchase and/or construction of facilities used for these purposes.

## 6. SPLIT INTEREST AGREEMENTS – FOUNDATION

At June 30, 2017 and 2016, the split interest agreements of the fiduciary fund consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Contributions receivable - charitable remainder trusts | $ 185,939 | $ 204,175 |
| Assets held in charitable remainder trust | 86,207 | 78,576 |
| Total | $ 272,146 | $ 282,751 |

Charitable Reminder Trusts

The Foundation was named trustee in one charitable remainder unitrust in which the trustee has a fiduciary responsibility to maintain and invest the trust assets prudently.

Trust 1 (dated April 12, 1989): Upon the death of the donor, 100% of the principal and income of the trust that is not required to have been distributed to the life beneficiary shall become the property of the Foundation. The donor passed away on May 30, 2015. The Foundation may use these assets for general purposes, as outlined in the trust agreement.

At June 30, 2017 and 2016, the estimated fair value of the trust was approximately $86,207 and $78,576, respectively.

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, 2016 and 2015, which is the most current information available, the estimated present value of future cash flows was $119,011 and $143,509, 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, 2017 and 2016 was $66,928 and $60,666, 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, 2017 and 2016, the total grant awards payable were $12,449,038 and $14,025,911, respectively. Total grant expense for the fiscal years ended June 30, 2017 and 2016 amounted to $3,453,749 and $2,078,129, respectively.

The Foundation has granted awards to various healthcare providers that provide needed healthcare services. At June 30, 2017 and 2016, the total grant awards payable were $417,292 and $847,106, respectively. Total grants and services expense for the years ended June 30, 2017 and 2016 amounted to $60,590 and $368,233, respectively.

## 8. LONG-TERM DISABILITY CLAIMS RESERVE

Long-term disability claims were self-insured by the Corporation. 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, 2017 and 2016, the long-term disability claims reserves were as follows:

| | Balance at July 1, 2016 | Claims Paid | Changes in Estimates | Balance at June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Claims payable | $ 86,881 | $ (14,803) | $ 4,940 | $ 77,018 | $ 14,803 |

| | Balance at July 1, 2015 | Claims Paid | Changes in Estimates | Balance at June 30, 2016 | Due Within One Year |
|---|---|---|---|---|---|
| Claims payable | $ 101,140 | $ (11,439) | $ (2,820) | $ 86,881 | $ 14,803 |

## 9. RETIRED DIRECTORS MEDICAL BENEFITS

The District has a liability for any post-employment benefits to be paid to employees or Board of Directors. The only post-employment benefits applicable to the District are the payments of lifetime medical benefits to six former members of the Board of Directors. The initial actuarially calculated obligation recorded by the District during the fiscal year ended June 30, 2010 amounted to $287,862. The remaining outstanding obligation at June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| Current | $ 23,000 | $ 29,000 |
| Long-term | 72,250 | 76,125 |
| | $ 95,250 | $ 105,125 |

## 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, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Base rent | $ 854,111 | $ 833,969 |
| Common area maintenance | 324,374 | 307,343 |
| | $ 1,178,485 | $ 1,141,312 |

The five year fiscal year minimum rental schedule follows:

| 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| $ 964,670 | $ 698,778 | $ 537,212 | $ 463,596 | $ 352,301 |

## 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.

## 13. 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, 2017), the Plan's independent actuary determined that the actuarial value of the Plan's net pension liability was $2,883,995 at June 30, 2017 and $9,644,702 at June 30, 2016. In the report it was recommended that an actuarially determined contribution of $288,378 as of June 30, 2017 and $928,460 as of June 30, 2016, should be made. The District's board of directors elected to fund the Plan, in the amount of $3,400,000 during 2017.

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.

## 13. 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 | 10,179,205 | (7,773,949) | 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 | 5,335,299 | 8,219,294 | (2,883,995) | 65% | N/A | N/A |

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

## 14. 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, 2017 and 2016 were $39,173 and $46,114, respectively.

## 15. PENSION PLAN

***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, 2017, the following employees were covered by the benefit terms for each Plan:

| | Miscellaneous |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 16 |
| Inactive employees entitled to but not yet receiving benefits | 60 |
| Active employees | 141 |
| Total | 217 |

*Contributions*

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

***Net Pension Liability***

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.

## 15. PENSION PLAN (Continued)

### *Actuarial Assumptions*

The total pension liability in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.75% |
| Discount rate | 5.00%, net of pension plan investment expense, including inflation. |
| Measurement date | June 30, 2017, based on a valuation date of June 30, 2017. |
| Ad hoc cost-of-living increases | Not applicable |
| Mortality | Pre-Retirement: None Post-Retirement:2017 Annuitant Mortality Table. |
| 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 particapnts and benefit accruals. |
| Retirement | 100% retirement 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, 2017 funding valuation for other relevant assumptions. |

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

## 15. PENSION PLAN (Continued)

***Net Pension Liability***

*Discount Rate*

The discount rate used to measure the total pension liability was 5.00 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 5.00 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 5.00 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 5.00 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 5.15 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. The Plan checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The Plan is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. For these reasons, the Plan expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 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

## 15. PENSION PLAN (Continued)

### *Net Pension Liability (Continued)*

Discount Rate (Continued)

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 |

### *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, 2016 (VD)** | $ 11,568,940 | $ 1,924,238 | $ 9,644,702 |
| Changes in Recognized for the Measurment Period: | | | |
| Employer Contributions | | 3,400,000 | (3,400,000) |
| Interest on the Total Pension Liability | 321,990 | | 321,990 |
| Differences between Expected and Actual Experience | (437,093) | | (437,093) |
| Changes in Assumptions | (2,852,163) | | (2,852,163) |
| Net Investment Income ** | | 426,828 | (426,828) |
| Benefit Payments, including Refunds of Employee Contributions | (382,380) | (382,380) | - |
| Administrative Expenses | | (33,387) | 33,387 |
| Net Changes during 2016-17 | (3,349,646) | 3,411,061 | (6,760,707) |
| **Balance, June 30, 2017 (MD) *** | $ 8,219,294 | $ 5,335,299 | $ 2,883,995 |

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

** Net of Administrative expenses.

## 15. PENSION PLAN (Continued)

***Changes in the Plan's Net Pension Liability***

*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 5.00 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 (4.00 percent) or 1 percentage-point higher (6.00 percent) than the current rate:

| | Discount Rate – 1% (4.00%) | Current Discount Rate (5.00%) | Discount Rate + 1% (6.00%) |
|---|---|---|---|
| Plan's Net Pension Liability/(Asset) | $ 4,036,349 | $ 2,883,995 | $ 1,920,194 |

*Plan Fiduciary Net Position*

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

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

For the fiscal year ended June 30, 2017, the District recognized pension expense of $3,400,000. At June 30, 2017, 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 | $ - | $ (838,923) |
| Net differences between projected and actual earnings on pension plan investments | 67,766 | (264,016) |
| Changes in assumptions | 1,166,765 | (2,139,122) |
| Total | $ 1,234,531 | $(3,242,061) |

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 |
|---|---|
| 2018 | $ (681,057) |
| 2019 | (681,056) |
| 2020 | (579,413) |
| 2021 | (66,004) |

**REQUIRED SUPPLEMENTARY INFORMATION**

**DESERT HEALTHCARE DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017**

**Prepared for the Desert Healthcare District, a Single-Employer Defined Benefit Pension Plan as of June 30, 2017**

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Measurement Period | 2016-2017[1] | 2014-2015[1] | 2013-2014[1] |
| **Total Pension Liability** | | | |
| Interest on total pension liability | $ 321,990 | $ 397,980 | $ 418,035 |
| Differences between expected and actual experience | (437,093) | (493,455) | (537,276) |
| Changes in assumptions | (2,852,163) | 1,944,607 | |
| Benefit payments, including refunds of employee contributions | (382,380) | (459,397) | (304,566) |
| **Net change in total pension liability** | (3,349,646) | 1,389,735 | (423,807) |
| **Total pension liability - beginning** | 11,568,940 | 10,179,205 | 10,603,012 |
| **Total pension liability - ending (a)** | 8,219,294 | 11,568,940 | 10,179,205 |
| Plan fiduciary net position | | | |
| Employer contributions | 3,400,000 | | |
| Net investment income | 426,828 | (6,638) | 71,101 |
| Benefit payments | (382,380) | (459,397) | (304,566) |
| Administrative expenses | (33,387) | (14,983) | (17,886) |
| Net change in plan fiduciary net position | 3,411,061 | (481,018) | (251,351) |
| Plan fiduciary net position - beginning | 1,924,238 | 2,405,256 | 2,656,607 |
| **Plan fiduciary net position - ending (b)** | 5,335,299 | 1,924,238 | 2,405,256 |
| **Net pension liability - ending (a) - (b)** | $ 2,883,995 | $ 9,644,702 | $ 7,773,949 |
| Plan fiduciary net position as a percentage of the total pension liability | 64.91% | 16.63% | 23.63% |
| Covered - employee payroll | N/A | N/A | N/A |
| Net pension liability as a percentage of covered - employee payroll | N/A | N/A | N/A |

**Notes to Schedule**

*Changes in Assumptions:*

2015 to 2016 Investment rate of return, including inflation, and net of investment expense changed from 4.00% to 2.83%.

2016 to 2017 Discount Rate changed from 2.83% to 5.00%.

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