

DESERT HEALTHCARE DISTRICT
PALM SPRINGS, CALIFORNIA
INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2014

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 then ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements of the District as of June 30, 2013, were audited by other auditors whose report dated October 8, 2013 expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2014, and the respective changes in financial position and cash flows where applicable thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1 to the basic financial statements effective July 1, 2013, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statements No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2014, 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 and budgetary comparison information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
October 8, 2014

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2014

The Desert Healthcare District (the District) has issued its financial statements for the fiscal years ended June 30, 2014 and June 30, 2013 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 year 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 Assets.

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 Assets (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) provides information regarding the revenues received by the District, and the expenses incurred in carrying out the District's programs.

The Statement of Cash Flows 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 2014 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.

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2014

The Statement of Net Position

A condensed version of the Statement of Net Position is presented in Table A below and the changes which occurred between Fiscal Year 2014 and 2013.

	Table A		
	06/30/14	06/30/13	Change
Assets:			
Cash and cash equivalents	\$ 5,120,962	\$ 3,492,108	\$ 1,628,854
Investments	51,497,981	52,945,337	(1,447,356)
Capital assets, net	14,413,932	12,894,048	1,519,884
All Other Assets	86,013	51,186	34,827
Total Assets	\$ 71,118,888	\$ 69,382,679	\$ 1,736,209
Liabilities:			
Grants payable	16,230,342	6,887,592	9,342,750
All other Liabilities	6,072,372	3,944,790	2,127,582
Total Liabilities	\$ 22,302,714	\$ 10,832,382	\$ 11,470,332
Net Assets:			
Net investment in capital assets	\$ 14,413,932	\$ 12,894,048	1,519,884
Unrestricted	33,402,242	44,656,249	(11,254,007)
Restricted	1,000,000	1,000,000	
Total Net Assets	\$ 48,816,174	\$ 58,550,297	\$ (9,734,123)

The \$9,734,123 decrease in Total Net Assets is due to the net loss of \$9,734,123 for the current fiscal year ended June 30, 2014. This compares to net income of \$726,530 for the fiscal year ended June 30, 2013. The loss for the fiscal year ended June 30, 2014 was primarily due to the \$10,590,277 increase in the amount of grants the District granted during the fiscal year. The \$1,447,356 decrease in Investments at June 30, 2014 is due primarily to the \$1,628,854 increase in cash and cash equivalents. The \$1,519,884 increase in Capital Assets, net is due primarily to tenant improvements made to the District's medical office building. Grants payable increased \$9,342,750 due primarily to a \$10,000,000 grant granted to the Coachella Valley Association of Governments for the construction of the Coachella Link that will provide a bicycle and electric vehicle pathway between the nine cities of the Coachella Valley. The \$2,127,582 increase in All Other Liabilities is due primarily to the \$1,313,780 payable for tenant improvements to the District's medical office building and \$857,000 increase in the pension liability for the Retirement Protection Plan.

The Statements of Revenues, Expenses and Changes 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.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2014

The Statement of Revenues, Expenses and Changes in Net Position (Continued)

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

- 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 Statement of Revenues, Expenses and Changes in Net Position; it summarizes the District's revenue and expenses, and compares Fiscal Year 2014 results to Fiscal Year 2013.

Table B

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
Revenue:			
	<u>06/30/14</u>	<u>06/30/13</u>	<u>Change</u>
Property Tax Revenue	\$ 5,208,351	\$ 5,600,079	\$ (391,728)
Rental income	1,062,108	1,104,525	(42,417)
All other income	657,078	264,207	392,871
Total Revenue	<u>\$ 6,927,537</u>	<u>\$ 6,968,811</u>	<u>\$ (41,274)</u>
Expenses:			
Grants program	13,753,129	3,162,852	10,590,277
Administrative Expense	2,908,531	3,079,429	(170,898)
Total Expense	<u>\$ 16,661,660</u>	<u>\$ 6,242,281</u>	<u>\$ 10,419,379</u>
Net Income (Loss)	<u>\$ (9,734,123)</u>	<u>\$ 726,530</u>	<u>\$ (10,460,653)</u>

Revenue

Property taxes are the District's primary source of operating revenues. The property tax revenue the fiscal year ended June 30, 2014 was \$5,208,351 which was a decrease of \$391,728 from the fiscal year ended June 30, 2013.

Rental income of \$1,062,108 for the fiscal year ended June 30, 2014 was \$42,417 lower from the fiscal year ended June 30, 2013.

All other income for the fiscal year ended June 30, 2014 increased \$392,871 compared to the fiscal year ended June 30, 2013. In addition during fiscal year ended June 30, 2014 interest income on investments increased \$93,978 and unrealized investment loss decreased by \$294,016.

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2014

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

Expenses

Grant Program expense for the fiscal year ended June 30, 2014 increased by \$10,590,277 compared to the fiscal year ended June 30, 2013. This is due primarily to a \$10,000,000 grant made during the fiscal year ended June 30, 2014 to the Coachella Valley Association of Governments for the construction of the Coachella Link that will provide a bicycle and electric vehicle pathway between the nine cities of the Coachella Valley. 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, 2014 decreased \$170,898 from the fiscal year ended June 30, 2013. The decrease is due to various expenses including lower election fees of \$145,922 due to no election held during the fiscal year, lower wage expense of \$31,412 primarily due to one lower head count, higher property tax expense of \$15,122 at Las Palmas Medical Plaza due to the method of calculation by the Riverside County's Assessor's office and lower professional fees expense of \$30,912. These expense reductions are offset by \$22,226 due to various higher expense items.

CAPITAL ASSETS

At June 30, 2014, the District had \$21,774,911 in capital assets and \$7,360,979 accumulated depreciation, resulting in \$14,413,932 net capital assets. At June 30, 2013, the District had \$19,733,236 in capital assets and \$6,839,188 in accumulated depreciation, resulting in \$12,894,048 net capital assets.

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

Table C

	<u>Balance</u> <u>June 30, 2012</u>	<u>Net</u> <u>Additions</u>	<u>Net</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Net</u> <u>Additions</u>	<u>Net</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Cost	\$20,608,232	\$ 56,646	\$(931,642)	\$19,733,236	\$2,096,067	\$ (54,392)	\$ 21,774,911
Acc. Depreciation	(7,239,147)	(545,401)	945,360	(6,839,188)	(572,483)	50,692	(7,360,979)
Capital Assets, Net	<u>\$13,369,085</u>	<u>\$(488,755)</u>	<u>\$ 13,718</u>	<u>\$12,894,048</u>	<u>\$1,523,584</u>	<u>\$ (3,700)</u>	<u>\$ 14,413,932</u>

DEBT ADMINISTRATION

The District has no outstanding debt.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Fiscal Year 2014 budget reflects revenues of \$8,464,496 and operating expenses of \$8,042,584. Capital expenditures are budgeted at \$314,000.

During the fiscal year ended June 30, 2014, the District awarded \$14,232,064 in new grants and distributed grants in the amount of \$4,430,406. Projected new grants to be awarded for the fiscal year 2014-2015 amount to \$4,500,000 and distributions for grants could possibly total \$20,730,342 due to the existing grant liability as of June 30, 2014 and the projected grant awards.

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 2014

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

ECONOMIC OUTLOOK AND MAJOR INITIATIVES (Continued)

The District has also established a reserve fund of approximately \$54,000,000 to cover grant liabilities and hospital operating expenses for a short period should the lease with Tenet Health System Desert, Inc. terminate prior to May 30, 2027.

CONTACTING THE DISTRICT'S MANAGEMENT

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DESERT HEALTHCARE DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,120,962	\$ 3,492,108
Accounts receivable - net	29,297	10,484
Prepaid items and deposits	56,716	40,702
Total current assets	<u>5,206,975</u>	<u>3,543,294</u>
NON-CURRENT ASSETS		
Investments	51,497,981	52,945,337
Capital assets, net	14,413,932	12,894,048
Total non-current assets	<u>65,911,913</u>	<u>65,839,385</u>
TOTAL ASSETS	<u>71,118,888</u>	<u>69,382,679</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current liabilities:		
Accounts payable and accrual liabilities	1,388,074	102,947
Grants payable	4,288,900	3,873,204
Compensated absences	94,181	77,049
Long-term disability claims reserve	35,000	40,000
Retired directors medical benefits	25,000	35,609
Total current liabilities	<u>5,831,155</u>	<u>4,128,809</u>
NON-CURRENT LIABILITIES		
Grants payable	11,941,442	3,014,388
Long-term disability claims reserve	93,250	100,058
Retired directors medical benefits	94,875	109,978
Retirement Protection Plan accrued contributions	4,285,980	3,428,784
Deposits payable	56,012	50,365
Total non-current liabilities	<u>16,471,559</u>	<u>6,703,573</u>
TOTAL LIABILITIES	<u>22,302,714</u>	<u>10,832,382</u>
<u>NET POSITION</u>		
Net investment in capital assets	14,413,932	12,894,048
Unrestricted	33,402,242	44,656,249
Restricted	1,000,000	1,000,000
TOTAL NET POSITION	<u>\$ 48,816,174</u>	<u>\$ 58,550,297</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Property taxes	\$ 5,208,351	\$ 5,600,079
Rental income	1,062,108	1,104,525
Other income	95,589	96,685
	<hr/>	<hr/>
Total revenues	6,366,048	6,801,289
	<hr/>	<hr/>
OPERATING EXPENSES		
Grant allocations	13,753,129	3,162,852
General expenses	132,593	280,892
Salaries and benefits	693,681	759,191
Legal fees	64,389	49,457
Depreciation	572,483	531,683
Other	340,875	379,812
Property taxes	58,910	43,788
Security	74,904	67,201
	<hr/>	<hr/>
Total expenditures	15,690,964	5,274,876
	<hr/>	<hr/>
Income (loss) from operations	(9,324,916)	1,526,413
	<hr/>	<hr/>
NONOPERATING INCOME (EXPENSES)		
Investment income	547,948	159,954
Bad debt (expense) recoveries	13,541	7,568
Investment expenses	(113,500)	(110,209)
Retirement Protection Plan contributions	(857,196)	(857,196)
	<hr/>	<hr/>
Total nonoperating income (loss)	(409,207)	(799,883)
	<hr/>	<hr/>
Increase (decrease) in net position	(9,734,123)	726,530
	<hr/>	<hr/>
NET POSITION		
Beginning of fiscal year	58,550,297	57,823,767
	<hr/>	<hr/>
End of fiscal year	\$ 48,816,174	\$ 58,550,297
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The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from County	\$ 5,208,351	\$ 5,600,079
Cash payments to suppliers for goods and services	(724,524)	(965,714)
Cash payments to employees for services	(702,261)	(781,306)
Cash payments to grantee	(4,410,379)	(9,411,986)
Insurance premiums and settlements		(62,818)
Other operating revenues	1,144,531	3,128,926
Net cash provided (used) by operating activities	515,718	(2,492,819)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions in capital assets - net	(782,209)	(56,646)
Collections recoveries (used) by capital and related financing activities	13,541	7,568
Net cash provided (used) by capital and related financing activities	(768,668)	(49,078)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	434,448	49,745
Net cash provided by investing activities	434,448	49,745
Net increase (decrease) in cash	181,498	(2,492,152)
CASH, CASH EQUIVALENTS AND INVESTMENTS AT BEGINNING OF FISCAL YEAR	56,437,445	58,929,597
CASH, CASH EQUIVALENTS AND INVESTMENTS AT END OF FISCAL YEAR	56,618,943	56,437,445
RECONCILIATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 5,120,962	\$ 3,492,108
Investments	51,497,981	52,945,337
Total cash, cash equivalents and investments	\$ 56,618,943	\$56,437,445

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014 AND 2013

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Income (loss) from operations	\$ (9,324,916)	\$ 1,526,413
Adjustments to reconciliation of income from operations to net cash used by operating activities:		
Depreciation	572,483	531,683
Changes in assets and liabilities:		
Accounts receivable	(18,813)	1,927,715
Prepaid items and deposits	(16,014)	15,898
Accounts payable and accrued liabilities	(26,073)	(186,945)
Grants payable	9,343,792	(6,249,134)
Deposits payable	5,647	(10,390)
Compensated absences	17,132	3,661
Long-term disability claims reserve	(11,808)	(25,944)
Retired directors medical liability	(25,712)	(25,776)
Net cash provided (used) by operating activities	<u>\$ 515,718</u>	<u>\$ (2,492,819)</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, 2014

WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2014</u>	<u>Totals 2013 (Memorandum Only)</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 203,947	\$ -	\$ 203,947	\$ 331,959
Grants receivable	1,139,274		1,139,274	
Prepaid expenditures	2,277		2,277	
Total current assets	<u>1,345,498</u>		<u>1,345,498</u>	<u>331,959</u>
OTHER ASSETS				
Contributions receivable - charitable remainder trusts		196,946	196,946	176,125
Assets held in charitable remainder trusts		90,410	90,410	89,301
Investments	2,587,493		2,587,493	2,581,952
Total other assets	<u>2,587,493</u>	<u>287,356</u>	<u>2,874,849</u>	<u>2,847,378</u>
TOTAL ASSETS	<u>\$ 3,932,991</u>	<u>\$ 287,356</u>	<u>\$ 4,220,347</u>	<u>\$ 3,179,337</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 43,384	\$ -	\$ 43,384	\$ 8,500
Liability under unitrusts		7,970	7,970	7,022
Grants Payable - ACA Covered CA	720,947		720,947	
Grants payable - current portion	962,739		962,739	614,715
Total current liabilities	<u>1,727,070</u>	<u>7,970</u>	<u>1,735,040</u>	<u>630,237</u>
Long-term liabilities:				
Grants payable - long-term	586,948		586,948	456,419
Total long-term liabilities	<u>586,948</u>		<u>586,948</u>	<u>456,419</u>
Total liabilities	<u>2,314,018</u>	<u>7,970</u>	<u>2,321,988</u>	<u>1,086,656</u>
NET POSITION	<u>1,618,973</u>	<u>279,386</u>	<u>1,898,359</u>	<u>2,092,681</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,932,991</u>	<u>\$ 287,356</u>	<u>\$ 4,220,347</u>	<u>\$ 3,179,337</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE FOUNDATION

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
DESERT HEALTHCARE FOUNDATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013 (Memorandum Only)</u>
SUPPORT AND REVENUE				
Contributions	\$ 307,793	\$ -	\$ 307,793	\$ 112,907
Grants	1,684,924		1,684,924	
Interest and dividends	69,086		69,086	68,689
Investment gains	131,196		131,196	11,436
Change in value - charitable trusts		20,982	20,982	7,025
	<u>2,192,999</u>	<u>20,982</u>	<u>2,213,981</u>	<u>200,057</u>
EXPENSES				
Grants and services	2,328,457		2,328,457	270,489
Management and general	79,846		79,846	38,869
	<u>2,408,303</u>		<u>2,408,303</u>	<u>309,358</u>
DECREASE IN NET POSITION	(215,304)	20,982	(194,322)	(109,301)
NET POSITION, BEGINNING OF FISCAL YEAR	<u>1,834,277</u>	<u>258,404</u>	<u>2,092,681</u>	<u>2,201,982</u>
NET POSITION, END OF FISCAL YEAR	<u>\$ 1,618,973</u>	<u>\$ 279,386</u>	<u>\$ 1,898,359</u>	<u>\$ 2,092,681</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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, 2014

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.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets

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

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

Compensated Absences

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

Property Tax

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

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 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, provided the taxes are received by the end of the District's fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the District and, therefore, are not recorded as revenue until collected.

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, 2014

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.

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 "invested in capital assets, net of related debt" or "restricted net assets." Board designated net assets of \$57,677 are included in the Foundation's unrestricted net position at June 30, 2014.

New Accounting Pronouncement – Effective July 1, 2013, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statements No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

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 \$54,570,911 as of June 30, 2014, 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, 2013 and May 30, 2021, the District may be obligated to repay Tenet beginning June 1, 2014 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.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

The \$4,527,000 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 \$13,580,000 to the prepaid rent schedule. An additional \$4,589,000 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, 2014, the prepaid lease balance is \$18,630,568. This amount will decrease annually by \$3,100,000 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, CASH EQUIVALENTS AND INVESTMENTS - DISTRICT

BUSINESS - TYPE ACTIVITIES - DESERT HEALTHCARE DISTRICT

Cash Deposits

The District's cash deposits at year-end are categorized below to give an indication of the level of credit risk assumed by the District.

Category 1 — Cash deposits which are insured by the FDIC.

Category 2 — Cash deposits which are collateralized. The California Government Code requires California banks and savings and loan associations to secure a District's deposits by pledging government securities with a value of 110% of a District's deposits, or by pledging first trust deed mortgage notes having a value of 150% of a District's total deposits.

Category 3 — Cash deposits which are uninsured or uncollateralized.

Investments

The District's investments at year-end are categorized below to give an indication of the level of credit risk assumed by the District.

Category 1 — Investments which are insured by the Securities Investors Protection Corporation (SIPC), or investments which are held in definitive form by the District or the District's agent in the District's name, or investments which are acquired through the federal reserve book-entry system where the financial institution or broker/dealer associated with the purchase is adequately segregated from the custodial safekeeping agent on the same investments, and where the investments are recorded on the books and records of the financial institution or broker/dealer in the name of the District.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

3. CASH, CASH EQUIVALENTS AND INVESTMENTS — DISTRICT - Continued

BUSINESS — TYPE ACTIVITIES — DESERT HEALTHCARE DISTRICT – Continued

Category 2 — Investments which are uninsured, where the investments are acquired through a financial institution's investment or trading department, but are held in the same financial institution's trust department and are recorded in the District's name in the trust department's systems and records.

Category 3 — Investments which are uninsured, 1) where the investments are acquired through a financial institution's investments department but are held for custodial purposes in the same financial institution's safekeeping department, or 2) where the investments are acquired through a financial institution's trust department, and held for custodial safekeeping by the same trust department, or 3) where the investments are acquired through, and held for safekeeping by, the same broker/dealer or 4) where investments are not held in the District's name in the systems and records of the financial institution or broker/dealer.

At June 30, 2014 and 2013, the District's cash, cash equivalents, and investments classified by risk category consisted of the following:

<u>June 30, 2014</u>		
<u>Category 1</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Demand Accounts	\$ 2,048,031	\$ 2,048,031
Money Market Fund	<u>3,072,931</u>	<u>3,072,931</u>
Total cash and cash equivalents	<u>5,120,962</u>	<u>5,120,962</u>
Investments		
US Government and Agency obligations	<u>54,015,357</u>	<u>51,497,981</u>
Total cash and investments	<u>\$ 59,136,319</u>	<u>\$ 56,618,943</u>
 <u>June 30, 2013</u>		
<u>Category 1</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Demand Accounts	\$ 956,379	\$ 956,379
Money Market Fund	<u>2,535,729</u>	<u>2,535,729</u>
Total cash and cash equivalents	<u>3,492,108</u>	<u>3,492,108</u>
Investments		
US Government and Agency obligations	<u>55,644,211</u>	<u>52,945,337</u>
Total cash and investments	<u>\$ 59,136,319</u>	<u>\$ 56,437,445</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

3. CASH, CASH EQUIVALENTS AND INVESTMENTS — DISTRICT - Continued

BUSINESS — TYPE ACTIVITIES — DESERT HEALTHCARE DISTRICT - Continued

The District had no cash, cash equivalents and investments in Risk Categories 2 and 3.

In accordance with *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method resulting in the following:

	<u>2014</u>	<u>2013</u>
Net unrealized gain (loss) in fair value of investments at June 30	<u>\$ (2,517,377)</u>	<u>\$ (2,431,749)</u>

4. CASH AND INVESTMENTS - FOUNDATION

Demand Deposits

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

The carrying amounts of cash deposits were \$203,947 at June 30, 2014 and \$331,959 at June 30, 2013. Bank balances were \$203,947 and \$331,959 at June 30, 2014 and 2013 respectively. The Foundation occasionally carries cash balances in banks in excess of the Federal Deposit Insurance Corporation's insurance limits.

Investments

At June 30, 2014 and 2013, investments consist of the following:

<u>June 30, 2014</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	\$ 926,889	\$ 950,474
Government bonds	992,069	1,016,572
Marketable securities	47,296	47,296
Mutual Funds	<u>467,377</u>	<u>573,151</u>
Total Investments	<u>\$ 2,433,631</u>	<u>\$ 2,587,493</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

4. CASH AND INVESTMENTS — FOUNDATION – Continued

<u>June 30, 2013</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	\$ 833,263	\$ 831,407
Government bonds	1,258,172	1,279,784
Marketable securities	<u>425,082</u>	<u>470,761</u>
Total Investments	<u>2,516,517</u>	<u>2,581,952</u>

5. CAPITAL ASSETS — DESERT HEALTHCARE DISTRICT

Business-Type Activities

At June 30, 2014 and 2013, the capital assets of the business-type activities consisted of the following:

<u>June 30, 2014</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Non-depreciable assets				
Land	\$ 3,859,100	\$ -	\$ -	\$ 3,859,100
Total non-depreciable assets	<u>3,859,100</u>			<u>3,859,100</u>
Depreciable assets:				
Buildings and improvements	15,718,797	2,079,978	(45,541)	17,753,234
Furniture and equipment	155,339	16,089	(8,851)	162,577
Total	<u>15,874,136</u>	<u>2,096,067</u>	<u>(54,392)</u>	<u>17,915,811</u>
Less accumulated depreciation	<u>(6,839,188)</u>	<u>(572,483)</u>	<u>(50,692)</u>	<u>(7,360,979)</u>
Total depreciable assets, net	<u>9,034,948</u>	<u>1,523,584</u>	<u>(3,700)</u>	<u>10,554,832</u>
Total Capital Assets, Net	<u>\$ 12,894,048</u>	<u>\$ 1,523,584</u>	<u>\$ (3,700)</u>	<u>\$ 14,413,932</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

5. CAPITAL ASSETS – Continued

<u>June 30, 2013</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Non-depreciable assets				
Land	\$ 3,859,100	\$ -	\$ -	\$ 3,859,100
Total non-depreciable assets	<u>3,859,100</u>			<u>3,859,100</u>
Depreciable assets:				
Buildings and improvements	16,579,693	46,271	(907,167)	\$ 15,718,797
Furniture and equipment	<u>169,439</u>	<u>10,375</u>	<u>(24,475)</u>	<u>155,339</u>
Total depreciable assets	16,749,132	56,646	(931,642)	15,874,136
Less accumulated depreciation	<u>(7,239,147)</u>	<u>(545,401)</u>	<u>945,360</u>	<u>(6,839,188)</u>
Total depreciable assets, net	<u>9,509,985</u>	<u>(488,755)</u>	<u>13,718</u>	<u>9,034,948</u>
Total capital assets, net	<u>\$ 13,369,085</u>	<u>\$ (488,755)</u>	<u>\$ 13,718</u>	<u>\$ 12,894,048</u>

6. RESTRICTED NET POSITION

The District has \$1,000,000 of restricted net position at June 30, 2014 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.

The Foundation has \$279,386 and \$258,404 of temporarily restricted net position at June 30, 2014 and 2013, respectively, consisting primarily of charitable remainder trusts.

7. SPLIT INTEREST AGREEMENTS – FOUNDATION

At June 30, 2014 and 2013, the split interest agreements of the fiduciary fund consisted of the following:

	<u>2014</u>	<u>2013</u>
Charitable Remainder Trusts	<u>\$ 287,356</u>	<u>\$ 265,426</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

7. SPLIT INTEREST AGREEMENTS – FOUNDATION – Continued

Charitable Remainder 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.

At June 30, 2014 and 2013, the estimated fair market value of the trust was approximately \$90,410 and \$89,301, respectively. Because the present value of the minimum payments owed to the life beneficiary exceed the fair market value of the trust assets, it is possible that there will be no trust assets to distribute to the Foundation upon the death of the donor. If trust assets are remaining at the death of the donor, the Foundation may use these assets for general purposes, as outlined in the trust agreement.

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, 2014 and 2013, which is the most current information available, the estimated present value of future cash flows was \$124,804 and \$114,603, 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, 2014 and 2013 was \$72,142 and \$61,522, respectively.

8. 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, 2014 and 2013, the total grant awards payable were \$16,230,342 and \$6,887,592, respectively. Total grant expense for the years ended June 30, 2014 and 2013 amounted to \$13,753,129 and \$3,162,852, respectively.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

8. GRANIS- Continued

The Foundation has granted awards to various healthcare providers that provide needed healthcare services. At June 30, 2014 and 2013, the total grant awards payable were \$2,270,634 and \$1,071,134, respectively. Total grants and services expense for the years ended June 30, 2014 and 2013 amounted to \$2,328,457 and \$270,489, respectively.

9. LONG-TERM DISABILITY CLAIMS RESERVE

Long-term disability claims were self-insured by the Corporation. Claimants' payments are administered by a third party administrator who processes payments made pursuant to the plan. Claimants are paid either to age 65 or until they return to work. At June 30, 2014 and 2013, the long-term disability claims reserves were as follows:

	2014	2013
Current	\$ 35,000	\$ 40,000
Long-term	93,250	100,058
	\$ 128,250	\$ 140,058

10. 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 Board of Directors. The initial actuarially calculated obligation recorded by the District during the year ended June 30, 2010 amounted to \$287,862. The remaining outstanding obligation at June 30, 2014 and 2013 were as follows:

	2014	2013
Current	\$ 25,000	\$ 35,609
Long-term	94,875	109,978
	\$ 119,875	\$ 145,587

11. INSURANCE

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

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

12. RENTAL INCOME

The District rents commercial office suites subject to lease terms ranging from three to five years. Rental income includes the base monthly rental payments plus the common area maintenance fee. Rental income consisted of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Base rent	\$ 795,667	\$ 835,586
Common area maintenance	<u>266,441</u>	<u>268,939</u>
	<u>\$ 1,062,108</u>	<u>\$ 1,104,525</u>

13. 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.

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. The most recent actuarial valuation as of June 30, 2014, the Plan's independent actuary determined that the actuarial value of the Plan's actuarial liability exceeded the Plan's assets by \$7,946,425 at June 30, 2014 and recommended to the District that a minimum contribution of \$1,631,186 be made to the Plan for the next two years.

The District has accrued contributions payable to the Plan of \$4,285,980 at June 30, 2014. The District's board of directors has approved an additional accrued contribution of \$857,196 to the Plan during the June 30, 2015 year. The District intends to include additional annual contributions in future budgets to meet the Plan's unfunded actuarial accrued liability.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

13. COMMITMENT AND CONTINGENCIES – Continued

Contributions – Continued

The District's board of directors has elected not to fund any additional amounts to the Plan at this time as a result of having sufficient asset reserves available at the District if needed.

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.

Pension Plans of Schedule of Funding Progress

<u>Actuarial Valuation Date (1)</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
06/30/06	\$ 5,236,383	\$ 9,566,663	\$ (4,330,280)	55%	N/A	N/A
06/30/07	N/A	N/A	N/A	N/A	N/A	N/A
06/30/08	4,552,074	9,312,581	(4,760,507)	49%	N/A	N/A
06/30/09	3,351,366	9,141,403	(5,790,037)	37%	N/A	N/A
06/30/10	N/A	N/A	N/A	N/A	N/A	N/A
06/30/11	3,522,125	7,921,342	(4,399,217)	45%	N/A	N/A
06/30/12	N/A	N/A	N/A	N/A	N/A	N/A
06/30/13	2,797,614	7,357,700	(4,560,086)	38%	N/A	N/A

No actuarial report or estimation using actuarial methodology were prepared for June 30, 2013, 2010, and 2007.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Net Pension Liability</u>	<u>Net Pension Liability</u>	<u>Fiduciary Net Position as a % of Total Pension Liability</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
06/30/14	\$ 2,656,607	\$ 10,603,012	\$ (7,946,405)	25.06%	N/A	N/A

See Note 1 – New Accounting Pronouncement.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

14. 401(K) RETIREMENT PLAN

The District has a 401(k) retirement plan that covers all employees. 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 to the 401(k) plan for the years ended June 30, 2014 and 2013 were \$36,864 and \$40,876, respectively.

15. SUBSEQUENT EVENTS

The District and Foundation evaluated all potential subsequent events as of October 8, 2014 when the financial statements were authorized and available to be issued. No subsequent events or transactions, other than those discussed in Note 6, were identified after June 30, 2014 or as of October 8, 2014 that require disclosure to the financial statements.



PARTNERS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the fiduciary fund financial statements of the Desert Healthcare District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued our report thereon dated October 8, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
October 8, 2014