

DESERT HEALTHCARE DISTRICT
PALM SPRINGS, CALIFORNIA
INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
JUNE 30, 2015

DESERT HEALTHCARE DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis (Required Supplementary Information)	5
Basic Financial Statements:	
Business-type Activities:	
Statement of Net Position	9
Statement of Revenues, Expenses, and Changes in Net Position	10
Statement of Cash Flows	11
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	13
Statement of Changes in Fiduciary Net Position – Desert Healthcare Foundation	14
Notes to Financial Statements	15



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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the business type activities and the fiduciary fund financial statements of the Desert Healthcare District (District) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Report on Comparative Summarized Information

We have previously audited the District's 2014 financial statements, and our report dated October 8, 2014 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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, 2015, 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. Our opinion is not modified with respect to these matters.

Emphasis of Matter

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2014, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, Statement No. 69, *Government Combinations and Disposals of Government Operations*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2015, 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 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
September 25, 2015

DESERT HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

The Desert Healthcare District (the District) has issued its financial statements for the fiscal years ended June 30, 2015 and June 30, 2014 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 2015 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 30, 2015 AND 2014

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 2015 and 2014.

	<u>Table A</u>		
	<u>06/30/15</u>	<u>06/30/14</u>	<u>Change</u>
Assets:			
Cash and cash equivalents	\$ 1,226,679	\$ 5,120,962	\$ (3,894,283)
Investments	54,904,210	51,497,981	3,406,229
Capital assets, net	13,985,550	14,413,932	(428,382)
All Other Assets	475,525	426,013	49,512
Total Assets	<u>\$ 70,591,964</u>	<u>\$ 71,458,888</u>	<u>\$ (866,924)</u>
Liabilities:			
Grants payable	\$ 15,512,550	\$ 16,230,342	\$ (717,792)
Net Pension Liability	7,773,949	7,946,405	(172,456)
All other Liabilities	1,123,726	1,786,392	(662,666)
Total Liabilities	<u>\$ 24,410,225</u>	<u>\$ 25,963,139</u>	<u>\$ (1,552,914)</u>
Net Assets:			
Net investment in capital assets	\$ 13,985,550	\$ 14,413,932	\$ (428,382)
Unrestricted	31,196,189	30,081,817	1,114,372
Restricted	1,000,000	1,000,000	-
Total Net Position	<u>\$ 46,181,739</u>	<u>\$ 45,495,749</u>	<u>\$ 685,990</u>

The \$685,990 increase in Total Net Position is due to the net income of \$685,990 for the current fiscal year ended June 30, 2015. This compares to a net loss of \$13,054,548 for the fiscal year ended June 30, 2014. The decrease is primarily due to less grant expenses of \$9,582,225 and less pension expense of \$3,660,425. The \$3,894,283 decrease in Cash and cash equivalents is due primarily to the \$3,406,229 increase in Investments. The \$428,382 decrease in Capital Assets is due primarily to depreciation of capital assets. The \$49,513 increase in All Other Assets is primarily due to an outstanding NEOPB Grant Receivable. The \$717,792 decrease in Grants Payable is due primarily to Grant payments exceeding total new Grants.

In April 2015, the Governmental Accounting Standards Board issued Statement No. 68 entitled "Accounting and Financial Reporting for Pensions". Previously, the pension obligation disclosure has been limited to the Footnotes to the financial statements. GASB 68 now requires governmental agencies to record the "Net Pension Liability" on the Statement of Net Position. An actuarial valuation was required to determine the Net Pension Liability for the Retirement Protection Plan established in 1997 for participants of record of the Desert Hospital. The Net Pension Liability for the District is \$7,773,949 and \$7,946,405 for 2015 and 2014 respectively. GASB 68 required a prior period adjustment of \$3,660,425 for 6/30/14. The adjustment is reflected in the Statement of Net Position and Statement of Revenues. The \$172,456 decrease in Net Pension Liability is due primarily to a reduction of the amount due retirement plan participants.

The \$662,665 decrease in All Other Liabilities is primarily due to a reduction of a liability paid for tenant improvements to the District's medical office building.

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

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 2015 results to Fiscal Year 2014.

Table B

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
Revenue			
Property Tax Revenue	\$ 5,673,166	\$ 5,548,351	\$ 124,815
Rental income	1,059,827	1,062,108	(2,280)
All other income	780,047	657,078	122,969
Total Revenue	\$ 7,513,040	\$ 7,267,537	\$ 245,503
Expenses:			
Grants program	\$ 4,170,904	\$ 13,753,129	\$ (9,582,225)
Administrative Expense	2,656,145	6,568,956	(3,912,810)
Total Expense	\$ 6,827,050	\$ 20,322,085	\$ (13,495,035)
Net Income (Loss)	\$ 685,990	\$ (13,054,548)	\$ 13,740,538

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Revenue

Property taxes are the District's primary source of operating revenues. The property tax revenue for the fiscal year ended June 30, 2015 was \$5,673,166, which was an increase of \$124,815 from the fiscal year ended June 30, 2014.

Rental income of \$1,059,827 for the fiscal year ended June 30, 2015 was \$2,280 lower from the fiscal year ended June 30, 2014.

All other income for the fiscal year ended June 30, 2015 increased \$122,969 compared to the fiscal year ended June 30, 2014. In addition during fiscal year ended June 30, 2015, NEOPB Grant income increased by \$118,766, interest income on investments decreased \$48,182 and unrealized investment loss decreased by \$31,457.

Expenses

Grant Program expense for the fiscal year ended June 30, 2015 decreased by \$9,582,225 compared to the fiscal year ended June 30, 2014. This is due primarily to a \$10,000,000 grant made during the fiscal year ended June 30, 2014. 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, 2015 decreased \$3,912,812 from the fiscal year ended June 30, 2014. The decrease is due to various expenses including higher election fees of \$163,037 due to an election held during the fiscal year; lower wage expense of \$69,441, primarily due to one lower headcount; higher professional fees expense of \$91,850 at Las Palmas Medical Plaza due to contracted property maintenance offset by lower internal property management expense of \$30,542; lower pension expense of \$4,283,514 due to the GASB 68 Net Pension Liability 6/30/14 prior period adjustment; higher professional fees expense of \$52,402, higher legal expense of \$77,107, and cost of the District's Annual Report of \$47,219. These expense reductions are offset by \$39,070 due to various higher expense items.

CAPITAL ASSETS

At June 30, 2015, the District had \$21,982,396 in capital assets and \$7,996,846 accumulated depreciation, resulting in \$13,985,550 net capital assets. At June 30, 2014, the District had \$21,774,911 in capital assets and \$7,360,979 in accumulated depreciation, resulting in \$14,413,932 net capital assets.

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

Table C

	Balance	Net	Net	Balance	Net	Net	Balance
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
Cost	\$19,733,236	\$2,096,067	\$(54,392)	\$21,774,911	\$215,942	\$(8,457)	\$21,982,396
Acc. Depreciation	(6,839,188)	(572,483)	50,692	(7,360,979)	(644,324)	8,457	(7,996,846)
Capital Assets, net	<u>\$12,894,048</u>	<u>\$1,523,583</u>	<u>\$ (3,700)</u>	<u>\$ 14,413,932</u>	<u>\$(428,382)</u>	<u>\$ 0</u>	<u>\$13,985,550</u>

DESERT HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014

DEBT ADMINISTRATION

The District has no outstanding debt.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Fiscal Year 2016 budget reflects revenues of \$9,311,855 and operating expenses of \$8,811,742. Capital expenditures are budgeted at \$424,000.

During the fiscal year ended June 30, 2015, the District awarded \$4,170,904 in new grants and distributed grants in the amount of \$4,732,301. Projected new grants to be awarded for the fiscal year 2015–2016 amount to \$4,115,000 and distributions for grants could possibly total \$19,665,050 due to the existing grant liability as of June 30, 2015 and the projected grant awards.

The District has also established a reserve fund of approximately \$54,500,000 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, 2015

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2014

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,226,679	\$ 5,120,962
Accounts receivable - net	414,579	29,297
Prepaid items and deposits	37,447	56,716
Total current assets	<u>1,678,705</u>	<u>5,206,975</u>
NON-CURRENT ASSETS		
Investments	54,904,210	51,497,981
Capital assets, net	13,985,550	14,413,932
Total non-current assets	<u>68,889,760</u>	<u>65,911,913</u>
Deferred Outflows of Resources:		
GASB 68 Reporting for Pension Plans	23,499	
Total deferred outflows of resources	<u>23,499</u>	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>70,591,964</u>	<u>71,118,888</u>
CURRENT LIABILITIES		
Current liabilities:		
Accounts payable and accrual liabilities	318,265	1,388,074
Grants payable	3,415,140	4,288,900
Compensated absences	71,935	94,181
Disability claims reserve, current portion	16,161	35,000
Retired directors medical benefits	33,000	25,000
Total current liabilities	<u>3,854,501</u>	<u>5,831,155</u>
Deferred Inflows of Resources:		
GASB 68 Reporting for Pension Plans	430,062	
Total deferred inflows of resources	<u>430,062</u>	
NON-CURRENT LIABILITIES		
Grants payable	12,132,121	11,941,442
Long-term disability claims reserve	84,979	93,250
Retired directors medical benefits	82,551	94,875
Retirement Protection Plan accrued contributions	7,773,949	4,285,980
Deposits payable	52,062	56,012
Total non-current liabilities	<u>20,125,662</u>	<u>16,471,559</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>24,410,225</u>	<u>22,302,714</u>
NET POSITION		
Net investment in capital assets	13,985,550	14,413,932
Unrestricted	31,196,189	33,402,242
Restricted	1,000,000	1,000,000
TOTAL NET POSITION	<u>\$ 46,181,739</u>	<u>\$ 48,816,174</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Property taxes	\$ 5,673,166	\$ 5,208,351
Rental income	1,058,835	1,062,108
Other income	249,055	95,589
	<u>6,981,056</u>	<u>6,366,048</u>
Total revenues		
OPERATING EXPENSES		
Grant allocations	4,170,904	13,753,129
General expenses	416,908	132,593
Salaries and benefits	666,682	693,681
Legal fees	125,186	64,389
Depreciation	644,324	572,483
Other	314,949	340,875
Property taxes	60,892	58,910
Security	70,860	74,904
	<u>6,470,705</u>	<u>15,690,964</u>
Total expenditures		
	<u>510,351</u>	<u>(9,324,916)</u>
Income (loss) from operations		
NONOPERATING INCOME (EXPENSES)		
Investment income	531,224	547,948
Bad debt (expense) recoveries	761	13,541
Investment expenses	(122,239)	(113,500)
Retirement Protection Plan contributions	(234,107)	(857,196)
	<u>175,639</u>	<u>(409,207)</u>
Total nonoperating income (loss)		
Increase (decrease) in net position	<u>685,990</u>	<u>(9,734,123)</u>
NET POSITION		
Beginning of fiscal year, as previously reported	48,816,174	58,550,297
Prior period adjustments	(3,320,425)	
	<u>45,495,749</u>	<u>58,550,297</u>
Net position at beginning of fiscal year, restated		
End of fiscal year	<u>\$ 46,181,739</u>	<u>\$ 48,816,174</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from County	\$ 5,673,166	\$ 5,208,351
Cash received from Grantor	47,187	
Cash payments to suppliers for goods and services	(2,039,334)	(724,524)
Cash payments to employees for services	(3,974,224)	(702,261)
Cash payments to grantee	(4,853,985)	(4,410,379)
Other operating revenues	1,211,471	1,144,531
Net cash provided (used) by operating activities	<u>(3,935,719)</u>	<u>515,718</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions in capital assets - net	(215,943)	(782,209)
Collections recoveries (used) by capital and related financing activities	761	13,541
Net cash provided (used) by capital and related financing activities	<u>(215,182)</u>	<u>(768,668)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	3,662,847	434,448
Net cash provided by investing activities	<u>3,662,847</u>	<u>434,448</u>
Net increase (decrease) in cash	(488,054)	181,498
CASH, CASH EQUIVALENTS AND INVESTMENTS AT BEGINNING OF FISCAL YEAR	<u>56,618,943</u>	<u>56,437,445</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS AT END OF FISCAL YEAR	<u>\$ 56,130,889</u>	<u>\$56,618,943</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 1,226,679	\$ 5,120,962
Investments	54,904,210	51,497,981
Total cash, cash equivalents and investments	<u>\$ 56,130,889</u>	<u>\$56,618,943</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Income (loss) from operations	\$ 510,351	\$ (9,324,916)
Adjustments to reconciliation of income from operations to net cash used by operating activities:		
Depreciation	644,324	572,483
Changes in assets and liabilities:		
Accounts receivable	(45,282)	(18,813)
Prepaid items and deposits	19,270	(16,014)
Pension liabilities	(3,253,862)	
Accounts payable and accrued liabilities	(1,069,809)	(26,073)
Grants payable	(683,081)	9,343,792
Deposits payable	(3,950)	5,647
Compensated absences	(22,246)	17,132
Long-term disability claims reserve	(27,110)	(11,808)
Retired directors medical liability	(4,324)	(25,712)
	<u>\$ (3,935,719)</u>	<u>\$ 515,718</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, 2015

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2014

			<u>Totals</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	<u>2014 (Memorandum Only)</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 75,841	\$ -	\$ 75,841	\$ 203,947
Grants receivable	435,000		435,000	1,139,274
Prepaid expenditures	2,500		2,500	2,277
Total current assets	513,341		513,341	1,345,498
OTHER ASSETS				
Contributions receivable - charitable remainder trusts		193,008	193,008	196,946
Assets held in charitable remainder trusts		77,410	77,410	90,410
Investments	2,641,514		2,641,514	2,587,493
Total other assets	2,641,514	270,418	2,911,932	2,874,849
TOTAL ASSETS	\$3,154,855	\$ 270,418	\$ 3,425,273	\$ 4,220,347
LIABILITIES AND NET POSITION				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 34,536	\$ -	\$ 34,536	\$ 43,384
Liability under unitrusts				7,970
Grants Payable - ACA Covered CA	431,961		431,961	720,947
Grants payable - current portion	874,779		874,779	962,739
Total current liabilities	1,341,276		1,341,276	1,735,040
Long-term liabilities:				
Grants payable - long-term	227,816		227,816	586,948
Total long-term liabilities	227,816		227,816	586,948
Total liabilities	1,569,092		1,569,092	2,321,988
NET POSITION	1,585,763	270,418	1,856,181	1,898,359
TOTAL LIABILITIES AND NET POSITION	\$3,154,855	\$ 270,418	\$ 3,425,273	\$ 4,220,347

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, 2015

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2015</u>	<u>2014 (Memorandum Only)</u>
SUPPORT AND REVENUE				
Contributions	\$ 205,080	\$ -	\$ 205,080	\$ 307,793
Grants	241,378		241,378	1,684,924
Interest and dividends	69,101		69,101	69,086
Investment gains	9,045		9,045	131,196
Change in value - charitable trusts		(8,968)	(8,968)	20,982
	<u>524,604</u>	<u>(8,968)</u>	<u>515,636</u>	<u>2,213,981</u>
EXPENSES				
Grants and services	448,889		448,889	2,328,457
Management and general	108,925		108,925	79,846
	<u>557,814</u>		<u>557,814</u>	<u>2,408,303</u>
DECREASE IN NET POSITION	(33,210)	(8,968)	(42,178)	(194,322)
NET POSITION, BEGINNING OF FISCAL YEAR	<u>1,618,973</u>	<u>279,386</u>	<u>1,898,359</u>	<u>2,092,681</u>
NET POSITION, END OF FISCAL YEAR	<u>\$ 1,585,763</u>	<u>\$ 270,418</u>	<u>\$ 1,856,181</u>	<u>\$ 1,898,359</u>

The accompanying notes are an integral part of these financial statements

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015

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, 2015

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, 2015

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 January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

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

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

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

Income Taxes

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

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 "invested in capital assets, net of related debt" or "restricted net assets."

New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as well as the requirements of Statement No. 50, *Pension Disclosures*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Implementation of GASB Statement No. 68 did have an impact on the Desert Health Care District and Desert Hospital Retirement Plan financial statements for the fiscal year ended June 30, 2015.

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Governmental Accounting Standards Board Statement No. 69

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement is effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Implementation of the GASB Statement No. 69 did not have an impact on the Desert Health Care District and Desert Hospital Retirement Plan financial statements for the fiscal year ended June 30, 2015.

Governmental Accounting Standards Board Statement No. 71

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will eliminate the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. Implementation of the GASB Statement No. 71 did have an impact on the Desert Health Care District and Desert Hospital Retirement Plan financial statements for the fiscal year ended June 30, 2015.

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 \$55,543,889 as of June 30, 2015, 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, 2015 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, 2015

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

The \$4,577,000 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 \$13,732,000 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, 2015, the prepaid lease balance is \$18,478,402. 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

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's Statement of Net Position:		
Cash and cash equivalents	\$ 1,226,679	\$ 5,120,962
Investments	54,904,210	51,497,981
Fiduciary Statement of Net Position:		
Cash and cash equivalents	75,841	203,947
Investments	<u>2,641,514</u>	<u>2,587,493</u>
 Total Cash and Investments	 <u>\$ 58,848,244</u>	 <u>\$ 59,410,383</u>

Cash and Investments consist of the following:

Cash on Hand	\$ 700	\$ 400
Cash in Bank-District	1,226,179	5,120,762
Cash in Bank-Foundation	75,641	203,747
Investments	<u>57,545,724</u>	<u>54,085,474</u>
 Total Cash and Investments	 <u>\$ 58,848,244</u>	 <u>\$ 59,410,383</u>

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

BUSINESS — TYPE ACTIVITIES — DESERT HEALTHCARE DISTRICT - Continued

Investments

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. One of the ways that the Plan manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for distributions.

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

As of June 30, 2015

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>				
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-36 Months</u>	<u>37-48 Months</u>	<u>More than 49 Months</u>
Money Market Funds	\$ 72,094	\$ 72,094	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	955,069	1,927	20,302	57,760	97,180	777,900
U.S. Government Agencies	27,736,983	6,269,025	5,541,104	9,870,540	3,218,460	2,837,854
U.S. Treasury Note	26,671,228	8,003,390	8,621,399	5,451,940	2,199,659	2,394,840
Municipal Bonds	1,504,461	400,976	1,035,060			68,425
Domestic Common Stock	605,889	605,889				
Total	\$ 57,545,724	\$ 15,353,301	\$ 15,217,865	\$ 15,380,240	\$ 5,515,299	\$ 6,079,019

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

BUSINESS — TYPE ACTIVITIES — DESERT HEALTHCARE DISTRICT - Continued

As of June 30, 2014

Investment Type	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	More than 49 Months
Money Market Funds	\$ 48,072	\$ 48,072	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	948,395	64,468	20,803	78,505	91,809	692,810
U.S. Government Agencies	26,346,732	8,191,610	6,665,046	4,600,478	6,763,211	126,387
U.S. Treasury Note	23,630,975	2,552,939	8,504,928	7,694,470	4,447,960	430,678
Municipal Bonds	2,538,149	1,010,000	414,192	1,064,740		49,217
Domestic Common Stock	573,151	573,151				
Total	\$ 54,085,474	\$ 12,440,240	\$ 15,604,969	\$ 13,438,193	\$ 11,302,980	\$ 1,299,092

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, 2015:

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A/BBB	Not Rated
Money Market Funds	\$ 72,094	N/A	\$ -	\$ -	\$ -	\$ -	\$ 72,09
Corporate Bonds	955,069	A			78,542	876,527	
U.S. Government Agencies	27,736,983	A		27,736,983			
U.S. Treasury Note	26,671,228	N/A	26,671,228				
Municipal Bonds	1,504,461	N/A		11,042	1,493,419		
Domestic Common Stock	605,889	N/A					605,88
Total	\$ 57,545,724		\$ 26,671,228	\$ 27,748,025	\$ 1,571,961	\$ 876,527	\$ 677,98

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

BUSINESS — TYPE ACTIVITIES — DESERT HEALTHCARE DISTRICT - Continued

As of June 30, 2014:

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A/BBB	Not Rated
Equity Based Mutual Funds	\$ -	N/A	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	48,072	N/A					48,072
Corporate Bonds	948,395	BBB			38,619	909,776	
U.S. Government Agencies	26,346,732	A		26,346,732			
U.S. Treasury Note	23,630,975	N/A	23,630,975				
Municipal Bonds	2,538,149	N/A		11,153	1,516,996	1,010,000	
Domestic Common Stock	573,151	N/A					573,151
Total	\$ 54,085,474		\$ 23,630,975	\$ 26,357,885	\$ 1,555,615	\$ 1,919,776	\$ 621,223

Concentration of Credit Risk

The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer. There are three investments at June 30, 2015 that represent 5% or more of total Plan investments These investments are:

Federal Home Loan Banks of \$8,180,160 with various maturity dates through June 30, 2019 and interest rates of 3.370-5.375%.

Federal Home Loan Mortgage Corporation of \$11,761,005 with various maturity dates through June 30, 2020 and interest rates of 1.25-5.50%.

Federal National Mortgage Association of \$6,790,938 with various maturity dates through June 30, 2020 and interest rates of 1.875-5.375%.

There are three investments at June 30, 2014 that represent 5% or more of total Plan investments These investments are:

Federal Home Loan Banks of \$6,389,700 with various maturity dates through June 30, 2018 and interest rates of 4.75-5.5%.

Federal Home Loan Mortgage Corporation of \$10,924,107 with various maturity dates through June 30, 2020 and interest rates of 2.000-5.125%.

Federal National Mortgage Association of \$7,983,453 with various maturity dates through June 30, 2018 and interest rates of 4.377-5.375%.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

BUSINESS — TYPE ACTIVITIES — DESERT HEALTHCARE DISTRICT - Continued

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, 2015 and 2014, there were no District deposits with financial institutions in excess of federal depository insurance limits.

4. CAPITAL ASSETS — DESERT HEALTHCARE DISTRICT

Business-Type Activities

At June 30, 2015 and 2014, the capital assets of the business-type activities consisted of the following:

<u>June 30, 2015</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Non-depreciable assets				
Land	\$ 3,859,100	\$ 129,550	\$ -	\$ 3,988,650
Total non-depreciable assets	<u>3,859,100</u>	<u>129,550</u>		<u>3,988,650</u>
Depreciable assets:				
Buildings and improvements	17,753,232	82,182		17,835,414
Furniture and equipment	<u>162,578</u>	<u>4,211</u>	<u>(8,457)</u>	<u>158,332</u>
Total	17,915,810	86,393	(8,457)	17,993,746
Less accumulated depreciation	<u>(7,360,978)</u>	<u>(644,324)</u>	<u>(8,457)</u>	<u>(7,996,845)</u>
Total depreciable assets, net	<u>10,554,832</u>	<u>(557,931)</u>		<u>9,996,901</u>
Total Capital Assets, Net	<u>\$ 14,413,932</u>	<u>\$ (428,381)</u>	<u>\$ -</u>	<u>\$ 13,985,551</u>

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

4. CAPITAL ASSETS – Continued

<u>June 30, 2014</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>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	2,079,976	(45,541)	\$ 17,753,232
Furniture and equipment	<u>155,339</u>	<u>16,090</u>	<u>(8,851)</u>	<u>162,578</u>
Total depreciable assets	15,874,136	2,096,066	(54,392)	17,915,810
Less accumulated depreciation	<u>(6,839,188)</u>	<u>(572,482)</u>	<u>(50,692)</u>	<u>(7,360,978)</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>

5. RESTRICTED NET POSITION

The District has \$1,000,000 of restricted net position at June 30, 2015 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 \$270,418 and \$279,386 of temporarily restricted net position at June 30, 2015 and 2014, respectively, consisting primarily of charitable remainder trusts.

6. SPLIT INTEREST AGREEMENTS – FOUNDATION

At June 30, 2015 and 2014, the split interest agreements of the fiduciary fund consisted of the following:

	<u>2015</u>	<u>2014</u>
Charitable Remainder Trusts	<u>\$ 270,418</u>	<u>\$ 287,356</u>

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

6. 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. 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, 2015 and 2014, the estimated fair market value of the trust was approximately \$77,410 and \$90,410, 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, 2015 and 2014, which is the most current information available, the estimated present value of future cash flows was \$127,324 and \$124,804, 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, 2015 and 2014 was \$65,684 and \$72,142, 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, 2015 and 2014, the total grant awards payable were \$15,512,550 and \$16,230,342, respectively. Total grant expense for the fiscal years ended June 30, 2015 and 2014 amounted to \$4,170,904 and \$13,753,129, respectively.

The Foundation has granted awards to various healthcare providers that provide needed healthcare services. At June 30, 2015 and 2014, the total grant awards payable were \$1,534,556 and \$2,270,634, respectively. Total grants and services expense for the years ended June 30, 2015 and 2014 amounted to \$448,889 and \$2,328,457, respectively.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

8. 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, 2015 and 2014, the long-term disability claims reserves were as follows:

	<u>2015</u>	<u>2014</u>
Current	\$ 16,161	\$ 25,000
Long-term	<u>84,979</u>	<u>93,250</u>
	<u>\$ 101,140</u>	<u>\$ 118,250</u>

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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current	\$ 33,000	\$ 35,000
Long-term	<u>82,551</u>	<u>94,875</u>
	<u>\$ 115,551</u>	<u>\$ 129,875</u>

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.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Base rent	\$ 777,148	\$ 795,667
Common area maintenance	<u>281,687</u>	<u>266,441</u>
	<u>\$ 1,058,835</u>	<u>\$ 1,062,108</u>

The five year minimum rental schedule follows:

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$ 1,053,491	\$ 938,273	\$ 701,798	\$ 554,643	\$ 419,630

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. The most recent actuarial valuation as of June 30, 2015, the Plan's independent actuary determined that the actuarial value of the Plan's net pension liability was \$7,773,949 at June 30, 2015 and \$7,946,405 at June 30, 2014 and recommended to the District that an actuarially determined contribution of \$928,460 as of June 30, 2015 and \$1,631,186 as of June 30, 2014.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

13. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – 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.

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, 2014, 2010, and 2007.

DESERT HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

13. DESERT HOSPITAL RETIREMENT PROTECTION PLAN – Continued

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Net Pension Liability</u>	<u>Net Pension Liability</u>	<u>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
06/30/15	2,405,256	10,149,205	7,743,949	23.63%	N/A	N/A

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, 2015 and 2014 were \$43,418 and \$36,864, respectively.

15. NET POSITION RESTATEMENT – JUNE 30, 2014

Property Tax Receivable – Subsequent to publishing the June 30, 2014 Financial Statements, review of property tax receipts received subsequent to June 30, 2014 revealed an estimated \$340,000 received for fiscal year 2014. An accrual is being recorded as a prior period adjustment to restate the Property Tax Receivable and the Net Position.

Net Pension Liability – In April 2015, the Governmental Accounting Standards Board issued Statement No. 68 titled "Accounting and Financial Reporting for Pensions". Previously, the pension obligation disclosure has been limited to the Footnotes to the financial statements. GASB 68 now requires governmental agencies to record the "Net Pension Liability" on the Statement of Net Position.

An actuarial valuation is required to determine the Net Pension Liability, which was recently performed by Nyhart actuarial firm. A prior period adjustment is required per GASB 68 to restate the Net Pension Liability as of June 30, 2014. The Net Pension Liability for the fiscal years ended June 30, 2015 and 2014 were \$7,773,949 and \$7,946,405, respectively

DESERT HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

15. NET POSITION RESTATEMENT - JUNE 30, 2014 - Continued

The table below reflects the prior period adjustments for the Property Tax Receivable accrual and the GASB 68 Net Pension Liability along with the restated Net Position balance.

	<u>Property Tax Receivable</u>	<u>Net Pension Liability</u>	<u>Net Position</u>
Unadjusted Balance 06/30/14	\$ -	\$ 4,285,980	\$ 48,816,174
Adjustment for Property Tax Accrual	340,000		340,000
Adjustment for GASB 68 Net Pension Liability		3,660,425	(3,660,425)
Restated Balance 06/30/14	<u>\$ 340,000</u>	<u>\$ 7,946,405</u>	<u>\$ 45,495,749</u>