

**Hi-Desert Memorial Health Care District
doing business as
Morongo Basin Healthcare District**

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2021 and 2020



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Yucca Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of Hi-Desert Memorial Health Care District doing business as Morongo Basin Healthcare District (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Hi-Desert Memorial Health Care District doing business as Morongo Basin Healthcare District as of June 30, 2020, were audited by Wipfli LLP whose report dated November 4, 2020, expressed an unmodified opinion on those statements.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2022, on our consideration of the 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 for the year ended June 30, 2021. The purpose of this 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 the effectiveness of the District's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 3, 2022

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Statements of Net Position
June 30, 2021 and 2020

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 2021 | 2020 |
|--|----------------------|----------------------|
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 2,094,897 | \$ 1,244,535 |
| Investments | 17,199,117 | 17,429,093 |
| Receivables: | | |
| Patients, net | 754,344 | 643,620 |
| Estimated third-party payor settlements | 3,186,908 | - |
| Promises to give | - | 35,000 |
| Grants | 81,955 | 252,239 |
| Other | 82,719 | 128,493 |
| Prepaid expenses | 195,902 | 137,041 |
| Total current assets | 23,595,842 | 19,870,021 |
| <i>Noncurrent assets</i> | | |
| Promises to give | - | 70,000 |
| Capital assets, net | 9,391,147 | 10,169,958 |
| Total noncurrent assets | 9,391,147 | 10,239,958 |
| Total assets | 32,986,989 | 30,109,979 |
| <i>Deferred outflows of resources</i> | | |
| Prepaid water treatment capacity fee | 447,663 | 522,273 |
| Total assets and deferred outflows of resources | \$ 33,434,652 | \$ 30,632,252 |

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Statements of Net Position (Continued)
June 30, 2021 and 2020

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | 2021 | 2020 |
|---|----------------------|----------------------|
| <i>Current liabilities</i> | | |
| Accounts payable | \$ 376,689 | \$ 301,764 |
| Accrued payroll and related liabilities | 216,617 | 166,550 |
| Accrued paid time off | 337,129 | 322,511 |
| Estimated third-party payor settlements | - | 182,413 |
| Unearned grant revenue | - | 916,654 |
| Current portion of long-term debt | 74,610 | 74,610 |
| Total current liabilities | 1,005,045 | 1,964,502 |
| <i>Noncurrent liabilities</i> | | |
| Long-term debt, net of current portion | 373,052 | 447,663 |
| Total liabilities | 1,378,097 | 2,412,165 |
| <i>Deferred inflows of resources</i> | | |
| Deferred lease revenue for hospital real property and fixed equipment | 1,000,000 | 1,000,000 |
| <i>Net position</i> | | |
| Net investment in capital assets | 9,391,147 | 10,169,958 |
| Restricted by donors for specific operating purposes | 112,393 | 112,393 |
| Unrestricted | 21,553,015 | 16,937,736 |
| Total net position | 31,056,555 | 27,220,087 |
| Total liabilities, deferred inflows of resources, and net position | \$ 33,434,652 | \$ 30,632,252 |

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|--|----------------------|----------------------|
| <i>Operating revenues</i> | | |
| Net patient service revenue | \$ 10,785,220 | \$ 7,028,256 |
| Grants | 1,864,097 | 1,780,737 |
| Lease revenue for hospital real property and fixed equipment | 2,000,000 | 2,000,000 |
| Other | 98,617 | 71,629 |
| Total operating revenues | 14,747,934 | 10,880,622 |
| <i>Operating expenses</i> | | |
| Salaries and wages | 5,283,539 | 5,084,258 |
| Employee benefits | 1,095,838 | 1,075,709 |
| Contract labor | 26,621 | 76,408 |
| Professional fees | 2,245,905 | 1,877,434 |
| Purchased services | 698,177 | 401,170 |
| Supplies | 1,053,944 | 565,378 |
| Insurance | 161,681 | 144,668 |
| Leases and rentals | 309,585 | 344,009 |
| Depreciation | 921,481 | 926,433 |
| Repairs and maintenance | 71,833 | 71,345 |
| Utilities | 89,860 | 77,093 |
| Information technology, network, and phones | 366,216 | 328,664 |
| Other | 513,553 | 427,895 |
| Total operating expenses | 12,838,233 | 11,400,464 |
| <i>Operating income (loss)</i> | 1,909,701 | (519,842) |
| <i>Nonoperating revenues (expenses)</i> | | |
| Tax revenue | 805,701 | 740,612 |
| CARES Act Provider Relief Fund | 805,561 | 161,264 |
| COVID-19 grants | 736,374 | 381,270 |
| Investment income (loss), net | (29,252) | 709,727 |
| Loss on disposal of capital assets | - | (29,029) |
| Rental income | 96,012 | 162,128 |
| Loss on uncollectible promises to give | (105,000) | - |
| Contributions | - | 100,005 |
| Total nonoperating revenues, net | 2,309,396 | 2,225,977 |
| <i>Revenue (loss) from discontinued hospital operations</i> | | |
| Net patient service revenue | (382,629) | 17,673 |
| <i>Expenses from discontinued hospital operations</i> | | |
| Expenses | - | 146 |
| Gain (loss) from discontinued operations, net | (382,629) | 17,527 |
| Change in net position | 3,836,468 | 1,723,662 |
| Net position, beginning of year | 27,220,087 | 25,496,425 |
| Net position, end of year | \$ 31,056,555 | \$ 27,220,087 |

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|--|---------------------|---------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | |
| <i>Cash flows from operating activities</i> | | |
| Cash received from and on behalf of patients | \$ 6,968,320 | \$ 6,909,473 |
| Cash received from grants | 2,034,381 | 1,535,904 |
| Cash received from lease of hospital real property and fixed equipment | 2,000,000 | 2,000,000 |
| Cash received from other revenue | 98,617 | 71,629 |
| Cash paid to and on behalf of employees | (6,314,692) | (6,048,257) |
| Cash paid to suppliers and contractors | (5,446,701) | (4,113,890) |
| Net cash provided by (used in) operating activities | (660,075) | 354,859 |
| <i>Cash flows from noncapital financing activities</i> | | |
| Proceeds from CARES Act Provider Relief Fund | - | 966,825 |
| Proceeds from other COVID-19 grants | 625,281 | 492,363 |
| Taxes received | 805,701 | 740,612 |
| Principal payments on long-term debt | (74,611) | (74,610) |
| Contributions | - | 135,005 |
| Net cash provided by noncapital financing activities | 1,356,371 | 2,260,195 |
| <i>Cash flows from capital and related financing activities</i> | | |
| Purchase of capital assets | (142,670) | (320,636) |
| <i>Cash flows from investing activities</i> | | |
| Purchase of investments | - | (2,000,000) |
| Sale of investments | 200,000 | - |
| Interest received | 48,036 | 1,964 |
| Rental income | 48,700 | 162,128 |
| Net cash provided by (used in) investing activities | 296,736 | (1,835,908) |
| Net increase in cash and cash equivalents | 850,362 | 458,510 |
| Cash and cash equivalents, beginning of year | 1,244,535 | 786,025 |
| Cash and cash equivalents, end of year | \$ 2,094,897 | \$ 1,244,535 |

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---------------------|-------------------|
| <i>Reconciliation of Operating Income (Loss) to Net Cash</i> | | |
| <i>Provided by (Used in) Operating Activities</i> | | |
| Operating income (loss) | \$ 1,909,701 | \$ (519,842) |
| <i>Adjustments to reconcile operating income (loss) to net cash</i> | | |
| <i>provided by (used in) operating activities</i> | | |
| Depreciation | 921,481 | 926,433 |
| Provision for bad debts | 271,125 | 83,439 |
| Net patient service revenue from discontinued hospital operations | (382,629) | 17,673 |
| Expenses for discontinued operations | - | (146) |
| (Increase) decrease in assets: | | |
| Receivables: | | |
| Patients, net | (381,849) | (145,274) |
| Estimated third-party payor settlements | (3,186,908) | - |
| Grants | 170,284 | (244,833) |
| Other | 45,774 | (5,039) |
| Prepaid expenses | (58,861) | 23,105 |
| Prepaid water treatment capacity fee | 74,610 | 74,610 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 74,925 | 102,605 |
| Accrued payroll and related liabilities | 50,067 | 46,393 |
| Accrued paid time off | 14,618 | 65,317 |
| Estimated third-party payor settlements | (182,413) | (69,582) |
| Net cash provided by (used in) operating activities | \$ (660,075) | \$ 354,859 |

See accompanying notes to basic financial statements.

Noncash noncapital financing activities:

During the year ended June 30, 2021, the District wrote off \$105,000 in uncollectible promises to give.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Hi-Desert Memorial Health Care District doing business as Morongo Basin Healthcare District (the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes under Section 115 of the Internal Revenue Code. The District is governed by a five-member Board of Directors. The District operates federally qualified health centers in Yucca Valley and Twentynine Palms, California, to provide medical, dental, and behavioral healthcare services to patients. Financial support for the District includes fees charged for services performed and federal and state sources. The District provides healthcare services primarily to individuals who reside in the local area.

The District operates as a dual status organization, with oversight from both a Board of Directors and a Community Health Center Governing Board (CHC Governing Board). The Board of Directors consists of five community members elected to four-year terms. The CHC Governing Board consists of at least nine and not more than thirteen members, with at least 51 percent of its members being consumers of services at the CHC (consumer members). Consumer board members must be a current registered patient of the health center and must have accessed the health center in the past 24 months to receive at least one or more in-scope services that generated a health center visit. A legal guardian of a patient who is a dependent child or adult may be considered a patient for purposes of board representation.

The Morongo Basin Healthcare District Foundation (the Foundation) was formed by the District. The Foundation is a California nonprofit public benefit corporation organized to solicit funds and help promote healthcare services within the district boundaries. The District is the sole corporate member of the Foundation and has the right to appoint all members of the Foundation's Board of Directors. The Foundation's operations are not significant to the District and have not been included in the District's financial statements.

The District entered into a purchase agreement and a lease with HDMC Holdings, LLC (HDMC Holdings) effective July 15, 2015. The sale of the hospital was based on fair market values, as defined by California Health and Safety Code Section 32121(p)(1).

The purchase agreement transferred prepaid expenses, inventory, personal property (equipment and supplies both capitalized and previously expensed), leases, contracts, licenses, and records to HDMC Holdings. The District retained the assets related to the federally qualified health clinics, Foundation assets, cash and short-term investments, patient accounts receivable, other receivables, cost report settlements, real property, and all liabilities (whether known or unknown) such as accounts payable, accrued payroll, debt, pension and other retirement plans, and cost report settlements. HDMC Holdings obtained malpractice tail coverage for the District. The sales price equals the book value of the prepaid expenses and inventory and 50 percent of the vested accrued paid time off. The sales price was approximately \$2,000,000.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

a. Reporting Entity (continued)

Under the lease agreement, all real property and permanently affixed equipment except for the federally qualified health clinics and Foundation real property are leased to HDMC Holdings. The annual rent is \$2,000,000 with a 30-year term through July 2045. Additional lease payments could be due subject to Quality Assurance Fee funding levels. HDMC Holdings has committed to certain capital improvements, physician recruitment, service expansion, and clinical services to be offered subject to quality issue exceptions within the first ten years and then also to financial and strategic exceptions after ten years. The lease contains a purchase option for HDMC Holdings to purchase the real property at fair market value at lease termination.

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise fund accounting – The District’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments and investment income – Investments are recorded at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income and gains and losses on fair value of investments.

Prepaid expenses – Prepaid expenses are expenses paid during the fiscal year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

Compensated absences – The District’s employees earn paid time off (PTO) for vacation, holidays, and short-term illnesses based upon years of service. The related liability is accrued during the period in which it is earned and will be paid to an employee upon either termination or retirement.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District.

Unrestricted net position is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services—the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

The District considers the lease income and related expenses, primarily depreciation, to be an operating activity as the lease contributes to the achievement of the District’s purpose of providing healthcare services.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

Grants and contributions – From time to time, the District receives grants from the federal government and the state of California and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to specific capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or purposes related to the District’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Sliding fee schedule – The District provides care to patients who meet certain criteria under its sliding fee schedule without charge or at amounts less than established rates.

Reclassifications – Certain reclassifications have been made to the 2020 financial statements to conform to the classifications used in the 2021 financial statements, with no effect on previously reported change in net position.

Upcoming accounting standard pronouncements – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending June 30, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; management is still evaluating the impact, if any, of this statement in the year of adoption.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District’s year ending June 30, 2022. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Subsequent events – The District has evaluated subsequent events through May 3, 2022, the date on which the financial statements were available to be issued.

2. Bank Deposits:

The District had bank deposits consisting of cash and cash equivalents in various financial institutions, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District’s deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110 percent of the District’s deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the District’s total deposits. The pledged securities are held by the pledging financial institution’s trust department in the name of the District.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

3. Investments:

The District's investment balances and maturities were as follows:

| | 2021 | | | | | Investment Ratings |
|--------------------------------|----------------------|---|---------------------|---------------------|---------------------------|---------------------------|
| | Fair Value | Investment Maturities (in Years) | | | Investment Ratings | |
| | | Less than One | One to Five | Over Five | | |
| Cash and money market accounts | \$ 2,400,606 | \$ 2,400,606 | \$ - | \$ - | Not applicable | |
| Certificates of deposit | 2,964,122 | 1,011,186 | 1,952,936 | - | Not applicable | |
| Corporate bonds and notes | 957,913 | 462,369 | - | 495,544 | AA- - AA+ | |
| U.S. treasury notes | 2,868,936 | 2,624,679 | 244,257 | - | Not applicable | |
| U.S. agency obligations | 4,110,918 | 227,113 | 1,976,130 | 1,907,675 | AA+ | |
| Mortgage backed securities | 3,896,622 | - | 291,773 | 3,604,849 | AA+ | |
| Total investments | \$ 17,199,117 | \$ 6,725,953 | \$ 4,465,096 | \$ 6,008,068 | | |

| | 2020 | | | | | Investment Ratings |
|--------------------------------|----------------------|---|---------------------|---------------------|---------------------------|---------------------------|
| | Fair Value | Investment Maturities (in Years) | | | Investment Ratings | |
| | | Less than One | One to Five | Over Five | | |
| Cash and money market accounts | \$ 1,657,881 | \$ 1,657,881 | \$ - | \$ - | Not applicable | |
| Certificates of deposit | 4,283,396 | 1,348,058 | 2,935,338 | - | Not applicable | |
| Corporate bonds and notes | 1,985,930 | 271,010 | 1,714,920 | - | A - AA+ | |
| U.S. treasury notes | 2,398,072 | 2,170,013 | 228,059 | - | Not applicable | |
| U.S. agency obligations | 4,347,132 | 147,027 | 1,509,412 | 2,690,693 | AA+ | |
| Mortgage backed securities | 2,756,682 | 1,616,763 | - | 1,139,919 | AA+ | |
| Total investments | \$ 17,429,093 | \$ 7,210,752 | \$ 6,387,729 | \$ 3,830,612 | | |

Fair value measurement – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

The District classifies its investments based on an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- **Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2** – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable either directly or indirectly.
- **Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

3. Investments (continued):

Fair value measurement (continued) – The following tables disclose, by level within the fair value hierarchy, the District’s assets measured and reported on the statements of financial position, at fair value on a recurring basis:

| | 2021 | | | |
|--------------------------------|---------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and money market accounts | \$ 2,400,606 | \$ - | \$ - | \$ 2,400,606 |
| Certificates of deposit | - | 2,964,122 | - | 2,964,122 |
| Corporate bonds and notes | - | 957,913 | - | 957,913 |
| U.S. treasury notes | - | 2,868,936 | - | 2,868,936 |
| U.S. agency obligations | - | 4,110,918 | - | 4,110,918 |
| Mortgage backed securities | - | 3,896,622 | - | 3,896,622 |
| Total investments | \$ 2,400,606 | \$ 14,798,511 | \$ - | \$ 17,199,117 |

| | 2020 | | | |
|--------------------------------|---------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and money market accounts | \$ 1,657,881 | \$ - | \$ - | \$ 1,657,881 |
| Certificates of deposit | - | 4,283,396 | - | 4,283,396 |
| Corporate bonds and notes | - | 1,985,930 | - | 1,985,930 |
| U.S. treasury notes | - | 2,398,072 | - | 2,398,072 |
| U.S. agency obligations | - | 4,347,132 | - | 4,347,132 |
| Mortgage backed securities | - | 2,756,682 | - | 2,756,682 |
| Total investments | \$ 1,657,881 | \$ 15,771,212 | \$ - | \$ 17,429,093 |

The fair value for the District’s investments categorized as Level 2 of the fair value hierarchy are valued using the market approach based primarily on current market interest rates for similar investments.

Investment policy – The District’s investment policy allows for various forms of investments generally set to mature within a few months to ten years. The policy identifies certain provisions which address interest rate risk, credit risk, and concentration of credit risk.

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 is, the greater the sensitivity of its fair value to changes in market interest rates will be. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the preceding schedules that show the distribution of the District’s investments by maturity.

Credit risk – Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody’s Investor Service, Inc., or Standard and Poor’s. The District’s investment policy for corporate bonds and notes is to invest in companies with total assets in excess of \$500 million and having an “A” or higher rating by rating agencies.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

3. Investments (continued):

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer), the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District’s investments are generally held by broker-dealers or banks’ trust departments used by the District to purchase securities.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District’s investment in a single issuer. The District’s investment allows concentrations of over 5 percent in government backed securities.

Foreign currency risk – Foreign currency risk relates to adverse effects on the fair value of an investment from changes in exchange rates involving currencies outside the United States. The District has no investments in foreign currencies as it is not allowed within their investment policy.

4. Promises to Give:

Unconditional promises to give are presently valued at their net realizable value using a discount factor over the periods in which the amounts are to be received. Management evaluates potential uncollectible promises to give at year end. During the year ended June 30, 2021, the District determined its remaining promises to give were uncollectible, therefore recorded them as a loss on uncollectible promises to give. Promises to give consisted of the following:

| | 2021 | 2020 |
|--|------------------|------------------|
| Due in: | | |
| Less than one year | \$ 70,000 | \$ 35,000 |
| One to five years | 35,000 | 70,000 |
| | 105,000 | 105,000 |
| Current portion of promises to give | - | (35,000) |
| Writeoff of uncollectible promises to give | (105,000) | - |
| | \$ - | \$ 70,000 |

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

5. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District consisted of these amounts:

| | 2021 | 2020 |
|--|-------------------|-------------------|
| Receivables from patients and their insurance carriers | \$ 111,021 | \$ 127,871 |
| Receivables from Medicare | 86,289 | 108,067 |
| Receivables from Medi-Cal | 803,211 | 688,926 |
| Total patient accounts receivable | 1,000,521 | 924,864 |
| Less allowance for uncollectible accounts | 246,177 | 281,244 |
| Patient accounts receivable, net | \$ 754,344 | \$ 643,620 |

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

6. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of more than two years; lesser amounts are expensed. Capital assets are stated at cost or estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation is removed from the accounts, and the resulting gain or loss is classified in nonoperating revenues or expenses.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital assets. Useful lives have been estimated as follows:

| | |
|----------------------------|---------------|
| Land improvements | 5 to 20 years |
| Buildings and improvements | 5 to 39 years |
| Equipment | 3 to 20 years |

Capital asset additions, retirements, transfers, and balances were as follows:

| | Balance June 30, 2020 | Additions | Retirements | Transfers | Balance June 30, 2021 |
|---|-----------------------------|---------------------|-------------|-------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 1,380,234 | \$ - | \$ - | \$ - | \$ 1,380,234 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 4,487,148 | 118,280 | - | - | 4,605,428 |
| Buildings and improvements | 34,293,576 | - | - | - | 34,293,576 |
| Equipment | 3,641,319 | 24,390 | - | - | 3,665,709 |
| Total capital assets being depreciated | 42,422,043 | 142,670 | - | - | 42,564,713 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | (2,407,139) | (177,656) | - | - | (2,584,795) |
| Buildings and improvements | (28,529,806) | (536,762) | - | - | (29,066,568) |
| Equipment | (2,695,374) | (207,063) | - | - | (2,902,437) |
| Total accumulated depreciation | (33,632,319) | (921,481) | - | - | (34,553,800) |
| Total capital assets being depreciated, net | 8,789,724 | (778,811) | - | - | 8,010,913 |
| Capital assets, net | \$ 10,169,958 | \$ (778,811) | \$ - | \$ - | \$ 9,391,147 |

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

6. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances were as follows:

| | Balance June 30, 2019 | Additions | Retirements | Transfers | Balance June 30, 2020 |
|--|--------------------------------------|---------------------|--------------------|------------------|--------------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 1,342,923 | \$ - | \$ - | \$ 37,311 | \$ 1,380,234 |
| Construction in progress | 218,361 | - | (1,930) | (216,431) | - |
| Total capital assets not being depreciated | 1,561,284 | - | (1,930) | (179,120) | 1,380,234 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 4,441,125 | 34,323 | - | 11,700 | 4,487,148 |
| Buildings and improvements | 33,983,296 | 193,083 | (44,740) | 161,937 | 34,293,576 |
| Equipment | 3,545,220 | 96,616 | (6,000) | 5,483 | 3,641,319 |
| Total capital assets being depreciated | 41,969,641 | 324,022 | (50,740) | 179,120 | 42,422,043 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | (2,235,171) | (171,968) | - | - | (2,407,139) |
| Buildings and improvements | (28,003,671) | (541,845) | 15,710 | - | (28,529,806) |
| Equipment | (2,487,299) | (212,619) | 4,544 | - | (2,695,374) |
| Total accumulated depreciation | (32,726,141) | (926,432) | 20,254 | - | (33,632,319) |
| <i>Total capital assets being depreciated, net</i> | 9,243,500 | (602,410) | (30,486) | 179,120 | 8,789,724 |
| Capital assets, net | \$ 10,804,784 | \$ (602,410) | \$ (32,416) | \$ - | \$ 10,169,958 |

The District leased capital assets with a net book value of \$5,936,142 and \$6,707,165 to HDMC Holdings during the years ended June 30, 2021 and 2020, respectively. Depreciation expense on the leased assets for the years ended June 30, 2021 and 2020, was \$771,023 and \$794,470, respectively.

7. Prepaid Water Treatment Capacity Fee:

The District constructed and capitalized a water treatment plant. The District retains ownership of the water treatment plant. Joshua Basin Water District (JBWD) operates the water treatment plant. In 2012, the District entered into a note payable with JBWD for a capacity fee of \$1,119,156. The capacity fee note payable will be repaid annually at \$74,610 for 15 years. A deferred outflow of resources and a note payable were recorded. The prepaid water treatment capacity fee is amortized to utilities expense over the 15-year term. HDMC Holdings reimburses the District \$74,610 each year for the water treatment capacity fee.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

8. Long-term Debt:

Changes in the District's long-term debt are as follows:

| | Balance June 30, 2020 | Additions | Reductions | Balance June 30, 2021 | Amount Due Within One Year |
|---|-----------------------------|-----------|-------------|-----------------------------|----------------------------------|
| <i>Long-term debt</i> | | | | | |
| Note payable to Joshua Basin Water District | \$ 522,273 | \$ - | \$ (74,611) | \$ 447,662 | \$ 74,610 |

| | Balance June 30, 2019 | Additions | Reductions | Balance June 30, 2020 | Amount Due Within One Year |
|---|-----------------------------|-----------|-------------|-----------------------------|----------------------------------|
| <i>Long-term debt</i> | | | | | |
| Note payable to Joshua Basin Water District | \$ 596,883 | \$ - | \$ (74,610) | \$ 522,273 | \$ 74,610 |

The note payable to JBWD in the original amount of \$1,119,156 is due in annual installments of \$74,610 plus variable interest at the California Local Agency Investment Fund Quarterly rate (0.33 percent and 1.47 percent at June 30, 2021 and 2020, respectively) through July 2026 for prepaid water treatment capacity fee.

Schedule of principal and interest payments on long-term debt is as follows:

| Years Ending June 30, | Principal | Interest | Total |
|--------------------------|-------------------|-----------------|-------------------|
| 2022 | \$ 74,610 | \$ 1,477 | \$ 76,087 |
| 2023 | 74,610 | 1,231 | 75,841 |
| 2024 | 74,610 | 985 | 75,595 |
| 2025 | 74,610 | 739 | 75,349 |
| 2026 | 74,610 | 492 | 75,102 |
| 2027 | 74,612 | 246 | 74,858 |
| | \$ 447,662 | \$ 5,170 | \$ 452,832 |

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

9. Commitments Under Noncancelable Operating Leases:

Following is a summary of future minimum obligations under noncancelable operating leases for equipment and buildings:

| Year | Amount |
|-------------|-------------------|
| 2022 | \$ 303,549 |
| 2023 | 93,546 |
| 2024 | 8,519 |
| | \$ 405,614 |

10. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated, or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not changed significantly between 2021 and 2020. The District has not changed its charity care and uninsured discount policies during fiscal years 2021 or 2020.

Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

| | 2021 | 2020 |
|---|----------------------|---------------------|
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | \$ 412,156 | \$ 511,148 |
| Medi-Cal | 9,475,726 | 5,722,622 |
| Patients and other third-party payors | 1,199,528 | 957,560 |
| 340B contract pharmacies | 487,665 | 343,030 |
| | 11,575,075 | 7,534,360 |
| Less: | | |
| Sliding fee discounts | (518,730) | (422,665) |
| Provision for bad debts | (271,125) | (83,439) |
| Net patient service revenue | \$ 10,785,220 | \$ 7,028,256 |

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

10. Net Patient Service Revenue (continued):

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- *Medicare and Medi-Cal* – Services provided to Medicare and Medi-Cal beneficiaries are reimbursed on a prospective payment methodology.
- The District also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per encounter and discounts from established charges.

Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

During the year ended June 30, 2021, the District received retroactive updates to their prospective payment system rates as well as lump-sum settlements related to the years ended June 30, 2015 through June 30, 2020. These retroactive lump-sum settlements were accounted for as a change in estimate and increased net patient services revenue in the year ended June 30, 2021, in the amount of approximately \$4,078,000.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended June 30, 2021 and 2020, were approximately \$511,000 and \$351,000, respectively. Funds received from grants to subsidize charity care services, among other purposes, provided for the years ended June 30, 2021 and 2020, were approximately \$1,590,000 and \$1,533,000, respectively.

11. Property Taxes:

The San Bernardino County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually and are due in equal installments in November and April. Property taxes are recorded as revenue when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

12. CARES Act Provider Relief Fund:

In April 2020, the District received \$966,825 of funding from the CARES Act Provider Relief Fund. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the years ended June 30, 2021 and 2020, the District recognized \$805,561 and \$161,264 of grant revenue from these funds, respectively.

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

13. Deferred Compensation Plan and Pension Plan:

The District provides a single employer-defined contribution pension plan covering regular full-time employees who are at least 21 years old and have six months of service with the District. Employer funding into this plan is based on a contribution level equal to one percent of compensation, plus one percent of compensation in excess of the Social Security Compensation Base, in effect at the beginning of each plan year. This plan complies with Section 401(a) of the Internal Revenue Code.

The District also funds a matching contribution equal to 50 percent of the employee's contributions made into a 457(b) deferred compensation plan. The name of the plan is Hi-Desert Medical Center Deferred Compensation Plan. The District is the plan administrator and has the authority to amend the plan. Deferrals in excess of 4 percent are not matched. The District's matching 457(b) plan contributions are deposited into the 401(a) plan. All funds of both plans are maintained and administered by the Variable Annuity Life Insurance Company (VALIC) and Voya Financial, formerly ING/Aetna Financial Services. Employees become fully vested in their accounts after five years of service. The District's contributions to these plans were approximately \$65,000 and \$68,000 for the years ended June 30, 2021 and 2020, respectively. Employee contributions to the plans were approximately \$63,000 and \$98,000 for the years ended June 30, 2021 and 2020, respectively.

14. Risk Management and Contingencies:

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical malpractice claims – The District has professional liability insurance coverage with Beta Healthcare Group. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year, or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$10,000,000 per claim of primary coverage with an annual aggregate limit of \$20,000,000. The policy has a \$5,000 deductible per claim.

Tail coverage – HDMC Holdings obtained professional and general liability insurance policies for an unlimited extended reporting period so that the professional and general liability coverage was effectively converted to occurrence basis coverage from claims-made coverage as part of the sales and lease agreements described in Note 1.

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

14. Risk Management and Contingencies (continued):

Workers' compensation program – The District is a participant in the Association of California Hospital District's Alpha Fund (the Fund) which administers a self-insured workers' compensation plan for participating hospital employees of its member hospitals. The District pays premiums to the Fund which is adjusted annually. If participation in the Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the Fund.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Grant funding – Grant expenditures are subject to the approval of various granting and contracting agencies. To be eligible for reimbursement, expenditures made under federal programs must comply with regulations established by the related agency. Agency determination of the District's failure to comply with such regulations may result in disallowed costs and a liability for reimbursements received.

15. Concentration of Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents, and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around eastern San Bernardino County.

The mix of receivables from patients was as follows:

| | 2021 | 2020 |
|--------------------------|--------------|--------------|
| Medi-Cal | 80 % | 74 % |
| Medicare | 9 | 12 |
| Other third-party payors | 9 | 11 |
| Patients | 2 | 3 |
| | 100 % | 100 % |

Providers – The District is dependent on its employed physicians, mid-level providers, and dentists to continue to provide patient care.

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

16. COVID-19 Pandemic:

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. The District has incurred additional direct costs for response to COVID-19 and in March through May 2020 experienced significant declines in revenues due to the state of California temporarily suspending elective procedures.

The District received government grants as described in Note 12 above as part of the federal government's response to the pandemic.

The District also recognized approximately \$547,000 and \$369,000 in government grants specifically for COVID-related expenses as part of the District's Community Health Center grants during the years ended June 30, 2021 and 2020, respectively.

Medicare sequestration has been suspended from May 1, 2020 through March 31, 2022, which will increase Medicare reimbursement by 2 percent.

In addition to accepting funding from the CARES Act Provider Relief Fund and the other funding sources noted above, the District resumed the services that had been temporarily suspended. However, the pandemic continues to affect the District's operations. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

SINGLE AUDIT

AUDITORS' SECTION



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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*

Board of Directors
Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Yucca Valley, 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 Hi-Desert Memorial Health Care District doing business as Morongo Basin Healthcare District (the District), which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 3, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor, and Associates PLLC

Spokane Valley, Washington
May 3, 2022



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Yucca Valley, California

Report on Compliance for Each Major Federal Program

We have audited Hi-Desert Memorial Health Care District doing business as Morongo Basin Healthcare District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, and contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 3, 2022

**Hi-Desert Memorial Health Care District
 doing business as Morongo Basin Healthcare District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2021**

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditors’ report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal programs:

| <i>Assistance Listing Number(s)</i> | <i>Name of Federal Program or Cluster</i> |
|-------------------------------------|--|
| 93.498 | Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution |
| 93.224 and 93.527 | Health Center Program Cluster |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2021**

Section II – Financial Statement Findings

There are no matters reported for 2021. Therefore, no corrective action plan is necessary, nor has one been prepared.

Section III – Federal Award Findings and Questioned Costs

Finding #2021-001

***Program
Information:***

Federal Agency U.S. Department of Health and Human Services

***Federal Assistance
Listing Number*** 93.224 and 93.527 Health Center Program Cluster

Award Number H80CS26610

Criteria Compliance Finding Significant Deficiency Material Weakness

OMB 2 CFR 200, Subpart F Compliance Supplement, Part 4, Compliance Requirement N, Special Tests and Provisions states, “Health centers must prepare and apply a sliding fee discount schedule so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient’s ability to pay.”

Condition In our testing of 40 sliding fee discounts for health center patients qualifying for reduced charge visits, we identified one instance where no application was maintained. We also identified one incident where the incorrect sliding fee was applied to the patient.

Cause The District did not have a review process in place to verify eligible patients completed the required application to receive a sliding fee discount and that each application contained the required information. Additionally, the District did not verify the correct sliding fee discount was based on the District’s sliding fee scale.

Context The finding appears to be an *isolated* problem.

Effect Missing applications could indicate that patients who received a sliding fee discount may not have been eligible. Additionally, the sliding fee discount could be applied incorrectly and not in accordance with the District’s policy.

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2021**

Section III – Federal Award Findings and Questioned Costs (continued)

Recommendation It is recommended to develop proper controls around the collection of sliding fee applications, verifying required patient information is present and complete, and apply the sliding fee discount in accordance with written policy. To ensure sliding fee discounts are properly calculated and documented, the District should increase the frequency of random reviews of its sliding fee discount applications to help detect and correct errors or incomplete applications on a timely basis. In addition, the District should provide additional training of staff involved in the application of sliding fee discounts.

View of responsible officials and planned corrective action. See corrective action plan.

AUDITEE'S SECTION

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021**

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal Assistance Listing Number | Pass-through Entity Identifying Number | Additional Award Identification | Total Federal Expenditures |
|--|--|---|--|-----------------------------------|
| United States Department of Health and Human Services Direct Programs: | | | | |
| Health Center Program Cluster: | | | | |
| Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | 93.224 | | | \$ 1,590,422 |
| Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | 93.224 | | COVID-19 | 547,013 |
| Grants for New and Expanded Services under the Health Center Program | 93.527 | | COVID-19 | 2,864 |
| Total Health Center Program Cluster | | | | 2,140,299 |
| Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution | 93.498 | | COVID-19 | 966,825 |
| Total United States Department of Health and Human Services Direct Programs | | | | 3,107,124 |
| United States Department of Health and Human Services Pass-through Programs From: | | | | |
| <i>Riverside County Children and Families Commission</i> | | | | |
| Support for Ombudsman and Beneficiary Counseling Programs for States Participating in Financial Alignment Model Demonstrations for Dually Eligible Individuals | 93.634 | 18814 | | 230,552 |
| Total United States Department of Health and Human Services | | | | 3,337,676 |
| United States Department of Transportation Pass-through Programs From: | | | | |
| <i>Reach Out Morongo Basin</i> | | | | |
| Enhanced Mobility for Seniors and Individuals with Disabilities Program | 20.513 | N/A | | 40,258 |
| Total expenditures of federal awards | | | | \$ 3,377,934 |

See accompanying independent auditors' report. The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards:

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Hi-Desert Memorial Health Care District doing business as Morongo Basin Healthcare District (the District) under programs of the federal government for the year ended June 30, 2021. Amounts reported on the Schedule for Federal Assistance Listing Number 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution are based upon the June 30, 2021, Provider Relief Fund report. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the net position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies:

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.



MORONGO BASIN HEALTHCARE DISTRICT

6530 La Contenta Road, Suite 100, Yucca Valley California 92284 | 760.820.9229

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Corrective Action Plan
Year Ended June 30, 2021**

The current year Schedule of Audit Findings and Questioned Costs reported one matter in Section III – Federal Award Findings and Questioned Costs.

Current year audit findings:

Finding Number Corrective Action Plan

2021-001 Application of Sliding Fee Discounts

***Correction action
planned:***

A random selection of 40 charts will be reviewed to ensure compliance with sliding fee discount schedule and policy. The review will include:

- Patient was given a correct discount percentage for services received based on the Community Health Center policy
- Patient application for sliding fee discount was retained in the patient’s medical record
- Patient’s income on the sliding fee discount application agreed with the information entered into the demographic section of the patient’s medical record

Patient charts will be reviewed quarterly. Any errors or omission will be corrected immediately or on the patient’s next visit. The results will be presented to the CHC Quality Committee. Staff will be retrained as needed based on the results of the chart review.

***Anticipated
completion date:***

Completed as of December 1, 2020

***Contact person
responsible for
corrective action:***

Deborah Anderson, CFO



MORONGO BASIN HEALTHCARE DISTRICT

6530 La Contenta Road, Suite 100, Yucca Valley California 92284 | 760.820.9229

**Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021**

Finding Number

2020-001

Application of Sliding Fee Discounts

Status:

Repeated as 2021-001

***Reason for finding's
recurrence:***

Both errors found with the sliding fee occurred in October 2020. When this error was found last year, a correction action plan was implemented that audits would take place quarterly. The timing of implementation for this plan was December 1, 2020, and implementation actually started in January 2021. Additionally, staff training took place concerning sliding fee in the first quarter of 2021. Management feels since these errors occurred before the implementation of the quarterly audit and prior to the training of staff, these errors are isolated. Management will continue to follow the corrective plan as outlined in last year's response.

Planned corrective action:

See corrective action plan.

***Partial correction action
taken:***

See corrective action plan.