Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Financial Statements and Supplemental Information

Years Ended June 30, 2020 and 2019

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Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

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Independent Auditor's Report

Board of Directors
Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District
Yucca Valley, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Hi-Desert Memorial Healthcare District d/b/a Morongo Basin Healthcare District (the "District"), as of and for the year ended June 30, 2020, 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; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hi-Desert Memorial Healthcare District d/b/a Morongo Basin Healthcare District, as of June 30, 2020, 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.

Other Matters

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.

Supplementary 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 the purpose 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information 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 November 4, 2020, on our consideration of Hi-Desert Memorial Healthcare District d/b/a Morongo Basin 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 solely 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 Hi-Desert Memorial Healthcare District d/b/a Morongo Basin Healthcare District's 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 the District's internal control over financial reporting and compliance.

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Prior Period Financial Statements

The financial statements of Hi-Desert Memorial Healthcare District d/b/a Morongo Basin Healthcare District, as of June 30, 2019, were audited by other auditors whose report dated October 28, 2019, expressed an unmodified opinion on those statements.

Wipfli LLP

Wipfli LLP
Oakland, California

November 4, 2020

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Statements of Net Position

June 30,	2020	2019
Current assets:		
Cash and cash equivalents	$ 1,244,535	$ 786,025
Investments	17,429,093	14,721,330
Receivables:		
Patients	643,620	581,785
Promise to give	35,000	35,000
Grants	252,239	7,406
Other	128,493	123,454
Prepaid expenses	137,041	160,146
Total current assets	19,870,021	16,415,146
Noncurrent assets:		
Promise to give	70,000	105,000
Capital assets:		
Nondepreciable capital assets	1,380,234	1,561,284
Depreciable capital assets - Net	8,789,724	9,243,500
Total noncurrent assets	10,239,958	10,909,784
Deferred outflow of resources -		
Prepaid water treatment capacity fee	522,273	596,883
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 30,632,252	$ 27,921,813

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Statements of Net Position (Continued)

June 30,	2020	2019
Current liabilities:		
Accounts payable	$ 301,764	$ 199,159
Accrued payroll and related liabilities	166,550	120,157
Accrued paid time off	322,511	257,194
Estimated third-party payor settlements	182,413	251,995
Current portion of long-term debt	74,610	74,610
Unearned grant revenue	916,654	-
Total current liabilities	1,964,502	903,115
Long-term debt, less current portion	447,663	522,273
Total liabilities	2,412,165	1,425,388
Deferred inflow of resources -		
Deferred lease revenue for hospital real property and fixed equipment	1,000,000	1,000,000
Net position:		
Net investment in capital assets	10,169,958	10,804,784
Restricted	112,393	112,393
Unrestricted	16,937,736	14,579,248
Total net position	27,220,087	25,496,425
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	$ 30,632,252	$ 27,921,813

See accompanying notes to financial statements.

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,	2020	2019
Operating revenue:		
Net patient service revenue	$ 7,028,256	$ 6,096,930
Grants	2,323,271	1,999,729
Lease revenue for hospital real property and fixed equipment	2,000,000	2,000,000
Other	71,629	21,384
Total operating revenue	11,423,156	10,118,043
Operating expenses:		
Salaries and wages	5,084,258	4,736,597
Employee benefits	1,075,709	1,030,884
Contract labor	76,408	70,450
Professional fees	1,877,434	2,021,274
Purchased services	401,170	284,916
Supplies	565,378	608,409
Insurance	144,668	129,821
Leases and rentals	344,009	391,050
Depreciation	926,433	938,018
Repairs and maintenance	71,345	47,046
Utilities	77,093	60,381
Information technology, network, and phones	328,664	303,457
Other	427,895	307,448
Total operating expenses	11,400,464	10,929,751
Income (loss) from operations	22,692	(811,708)
Nonoperating revenue (expenses):		
Tax revenue	740,612	696,070
Investment income - Net	709,727	610,923
Loss on disposal of capital assets	(29,029)	-
Rental income	162,128	88,674
Contributions	100,005	180,134
Total nonoperating revenue - Net	1,683,443	1,575,801

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

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

Years Ended June 30,	2020	2019
Revenue from discontinued hospital operations - Net patient service revenue	$ 17,673	$ 314,174
Expenses from discontinued hospital operations - Expenses	146	1,009
Gain from discontinued operations - Net	17,527	313,165
Increase in net position	1,723,662	1,077,258
Net position - Beginning of year	25,496,425	24,419,167
Net position - End of year	$ 27,220,087	$ 25,496,425

See accompanying notes to financial statements.

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Statements of Cash Flows

Years Ended June 30,	2020	2019
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 6,669,533	$ 6,946,817
Receipts from grants	2,987,345	2,568,465
Receipts from lease of hospital real property and fixed equipment	2,000,000	2,000,000
Received from other revenue	428,780	21,384
Payments to employees	(6,048,257)	(5,741,773)
Payments to suppliers, contractors, and others	(4,188,354)	(4,203,751)
Net cash provided in operating activities	1,849,047	1,591,142
Cash flows from noncapital financing activities:		
Taxes received	740,612	696,070
Principal payments on long-term debt	(74,610)	(74,610)
Contributions	100,005	40,134
Net cash provided by noncapital financing activities	766,007	661,594
Cash flows from capital and related financing activities:		
Purchase of capital assets	(320,636)	(2,846,467)
Cash flows from investing activities:		
Purchase of investments	(2,000,000)	(266,700)
Proceeds from sale of assets	-	500,000
Interest received	1,964	309,155
Rental income	162,128	50,638
Net cash provided by investing activities	(1,835,908)	593,093
Net decrease in cash and cash equivalents	458,510	(638)
Cash and cash equivalents - Beginning of year	786,025	786,663
Cash and cash equivalents - End of year	$ 1,244,535	$ 786,025

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Statements of Cash Flows (Continued)

Years Ended June 30,	2020	2019
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	$ 22,692	$ (811,708)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	926,433	938,018
Provision for bad debts	132,758	424,697
Net patient service revenue from discontinued hospital operations	17,673	314,174
Expenses for discontinued operations	(146)	(1,009)
Changes in operating assets and liabilities:		
Receivables:		
Patients	(194,593)	(34,341)
Promises to give	35,000	-
Grants	(244,833)	568,736
Other	(5,039)	(106,638)
Prepaid expenses	23,105	(12,667)
Prepaid water treatment capacity fee	74,610	74,611
Accounts payable	102,605	(40,434)
Accrued compensation and related liabilities	46,393	(12,123)
Accrued paid time off	65,317	37,831
Estimated third-party payor settlements	(69,582)	251,995
Unearned grant revenue	916,654	-
Total adjustments	1,826,355	2,402,850
Net cash provided by operating activities	$ 1,849,047	$ 1,591,142

See accompanying notes to financial statements.

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Hi-Desert Memorial Healthcare District d/b/a 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 for 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 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.

Enterprise Fund Accounting

The District's accounting policies conform to GAAP 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.

Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The District considers significant accounting estimates to be those that require more significant judgments and include the valuation of patient accounts receivable, including contractual adjustments and allowance for uncollectible accounts and estimated third-party payors' settlements.

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturity dates of three months or less. Cash and cash equivalents are carried at cost, which approximates fair value.

Investment and Investment Income

Investments are measured at fair value in the accompanying statements of net position. Investment income or loss, including realized gains and losses on investments, interest, and dividends, is included in nonoperating income and revenue in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification.

The District monitors the difference between the cost and fair value of its investments. A decline in market value of an individual investment security below cost that is deemed to be other-than temporary results in an impairment, and the District reduces the investment's carrying value to fair value. A new cost basis is established for the investment, and any important loss is recorded as a realized loss in investment income.

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.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or, if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and allowances for doubtful accounts, which reflect management's estimate of the amounts that won't be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of net patient revenue and a credit to a contractual allowance. In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of net patient revenue and a credit to a valuation allowance.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

In evaluating the collectibility of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful 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 doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts 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 includes 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 doubtful accounts.

Capital Assets

The District capitalizes assets whose costs exceed $5,000 and that have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful life, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Property and equipment acquisitions are recorded at cost or, if donated, at acquisition value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method using these asset lives:

Land improvements	5 to 20 years
Buildings and building improvements	5 to 39 years
Equipment	3 to 20 years

Note 1: Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

Capital assets are reviewed for impairment when events or changes in circumstances suggest the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude, and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. There were no impairment losses recorded for the years ended June 30, 2020 and 2019.

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 in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is a noncapital net position that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the facility, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definitions above. 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.

Operating Revenue and Expenses

The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services-the District's principal activity. Nonexchange revenue, including grants, property taxes, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient 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. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

For uninsured patients, the District recognizes revenue on the basis of its standard rates for services provided. 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.

Charity Care

The District provides care to patients who meet certain criteria under its sliding fee schedule without charge or at amounts less than established rates. The District maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Grants and Contributions

From time to time, the District receives grants from the federal government and the State of California, as well as contributions from individuals and private organizations. Revenue 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 restricted to capital acquisitions are reported after nonoperating revenue 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.

Advertising Costs

Advertising costs are expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through November 4, 2020, which is the date the financial statements were available to be issued.

Note 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.

Note 3: Investments

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

		Investment Maturities (in Years)		
June 30, 2020	Fair Value	Less than One	One to Five	Over Five
Cash and money market accounts	$ 1,657,881	$ 1,657,881	$ -	$ -
Certificates of deposit	4,283,396	1,348,058	2,935,338	-
Corporate bonds and notes	1,985,930	271,010	1,714,920	-
U.S. treasury notes	2,398,072	2,170,013	228,059	-
U.S. agency obligations	4,347,132	147,027	1,509,412	2,690,693
Mortgage backed securities	2,756,682	1,616,763	-	1,139,919
Totals	$ 17,429,093	$ 7,210,752	$ 6,387,729	$ 3,830,612

		Investment Maturities (in Years)		
June 30, 2019	Fair Value	Less than One	One to Five	Over Five
Cash and money market accounts	$ 1,852,596	$ 1,852,596	$ -	$ -
Certificates of deposit	2,081,874	496,922	1,584,952	-
Corporate bonds and notes	1,233,719	753,009	480,710	-
U.S. treasury notes	671,364	99,891	355,316	216,157
U.S. agency obligations	3,883,230	181,602	1,442,159	2,259,469
Mortgage backed securities	4,998,547	1,471,881	2,688,829	837,837
Totals	$ 14,721,330	$ 4,855,901	$ 6,551,966	$ 3,313,463

Note 3: Investments (Continued)

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.

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:

June 30, 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
Totals	$ 1,657,881	$ 15,771,212	$ -	$ 17,429,093

Note 3: Investments (Continued)

June 30, 2019	Level 1	Level 2	Level 3	Total
Cash and money market accounts	$ 1,852,596	$ -	$ -	$ 1,852,596
Certificates of deposit	-	2,081,874	-	2,081,874
Corporate bonds and notes	-	1,233,719	-	1,233,719
U.S. treasury notes	-	671,364	-	671,364
U.S. agency obligations	-	3,883,230	-	3,883,230
Mortgage backed securities	-	4,998,547	-	4,998,547
Totals	$ 1,852,596	$ 12,868,734	$ -	$ 14,721,330

The fair value for the District's investments categorized as Level 2 of the fair value hierarchy is 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.

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.

Note 3: Investments (Continued)

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.

Note 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. Based on this evaluation, an allowance for uncollectible promises to give was not necessary at June 30, 2020 and 2019.

Promises to give consist of the following as of June 30:

	2020	2019
Due in:		
Less than one year	$ 35,000	$ 35,000
One to five years	70,000	105,000
Total promises to give	105,000	140,000
Current portion of promise to give	(35,000)	(35,000)
Long-term promise to give	$ 70,000	$ 105,000

Note 5: Patient Accounts Receivable

Patient accounts receivable consisted of the following as of June 30:

	2020	2019
Receivables from patients and their insurance carriers	$ 124,669	$ 83,694
Receivables from Medicare	107,241	161,125
Receivables from Medi-Cal	692,954	746,583
Total patient accounts receivable	924,864	991,402
Less:		
Allowance for contractual adjustments	(245,640)	(375,315)
Allowance for uncollectible accounts	(35,604)	(34,302)
Patient accounts receivable - Net	$ 643,620	$ 581,785

Note 6: Reimbursement Arrangements With Third-Party Payors

Agreements that provide for reimbursement at amounts which vary from its established rates are maintained with third-party payors. A summary of the basis of reimbursement with major third-party payors follows.

Medicare

The Health Center qualifies for the Medicare Federally Qualified Health Centers (FQHC) program and is reimbursed using a prospective payment system (PPS) under which FQHCs are paid 80% of the lesser of charges based on FQHC payment codes or the PPS rate, a national encounter-based rate with geographic and other adjustments. The FQHC PPS base rate is updated annually based on the Medicare Economic Index (MEI) and thereafter will be updated based on the MEI or by an FQHC market-based index.

Medicaid

The Health Center also qualifies for the Medicaid FQHC program. Federal law requires the State of California to pay Medicaid FQHC services on a per-encounter basis under a PPS or an alternative payment methodology. The PPS encounter rate is increased annually by the change in the MEI, adjusted for any changes in scope of services.

The Health Center contracts with a number of Prepaid Medical Assistance Plans (PMAP) for Medicaid managed care services. Federal law requires the State of California to reimburse the Health Center for the difference between the PMAP-established fee schedule and the final PPS rate. California Department of Human Services (DHS) reimburses FQHCs directly at the PPS Medicaid rate for services provided under PMAPs.

Other

The Health Center has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates and discounts from established charges.

Note 6: Reimbursement Arrangements With Third-Party Payors (Continued)

Laws and Regulations

The health care 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, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. While no significant regulatory inquiries have been made of the Health Center, 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.

Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RAC) as part of its further efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and were not detected through existing CMS program integrity efforts. Once an RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. As of June 30, 2020, the Health Center had not been notified of any potential reimbursement adjustments.

Note 7: Capital Assets

Capital assets activity for the year ended June 30, 2020, follows:

	Balance June 30, 2019	Additions	Retirements	Transfers	Balance June 30, 2020
Nondepreciable capital assets:					
Land	$ 1,342,923	$ -	$ -	$ 37,311	$ 1,380,234
Construction in progress	218,361	-	(1,930)	(216,431)	-
Total nondepreciable capital assets	1,561,284	-	(1,930)	(179,120)	1,380,234
Depreciable capital assets:					
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 depreciable capital assets	41,969,641	324,022	(50,740)	179,120	42,422,043
Less accumulated depreciation for:					
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)
Total capital assets being depreciated - Net	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

Note 7: Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2019, follows:

	Balance June 30, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Nondepreciable capital assets:					
Land	$ 1,073,183	$ 269,740	$ -	$ -	$ 1,342,923
Construction in progress	334,820	74,158	-	(190,617)	218,361
Total nondepreciable capital assets	1,408,003	343,898	-	(190,617)	1,561,284
Depreciable capital assets:					
Land improvements	4,441,125	-	-	-	4,441,125
Buildings and improvements	31,666,107	2,317,189	-	-	33,983,296
Equipment	3,169,223	185,380	-	190,617	3,545,220
Total depreciable capital assets	39,276,455	2,502,569	-	190,617	41,969,641
Less accumulated depreciation for:					
Land improvements	(2,064,856)	(170,315)	-	-	(2,235,171)
Buildings and improvements	(27,429,774)	(573,897)	-	-	(28,003,671)
Equipment	(2,293,493)	(193,806)	-	-	(2,487,299)
Total accumulated depreciation	(31,788,123)	(938,018)	-	-	(32,726,141)
Total capital assets being depreciated - Net	7,488,332	1,564,551	-	190,617	9,243,500
Capital assets - Net	$ 8,896,335	$ 1,908,449	$ -	$ -	$ 10,804,784

Note 7: Capital Assets (Continued)

Construction in progress at June 30, 2019, consisted of architect and construction costs associated with the remodel of the Split Rock property. The project was complete in 2020.

The District leased capital assets with a net book value of $6,341,926 and $7,754,325 to HDMC Holdings during the years ended June 30, 2020 and 2019, respectively. Depreciation expense on the leased assets for the years ended June 30, 2020 and 2019, was $724,944 and $870,118, respectively.

Note 8: 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.

Note 9: Long-Term Debt Obligations

Long-term debt obligations for the years ended June 30, 2020 and 2019, are as follows:

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

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amount Due Within One Year
Long-term debt - Note payable to Joshua Basin Water District	$ 671,493	$ -	$ (74,610)	$ 596,883	$ 74,610

Note payable to Joshua Basin Water District in the original amount of $1,119,156, due in annual installments of $74,610 plus variable interest at the California Local Agency Investment Fund Quarterly rate (1.36 percent and 2.57 percent at June 30, 2020 and 2019, respectively) through June 2027 for prepaid water treatment capacity fee.

Note 9: Long-Term Debt Obligations (Continued)

Scheduled principal and interest repayments on long-term debt are as follows for the years ending June 30:

	Bonds and Notes Payable		
	Principal	Interest	Total
2021	$ 74,610	$ 7,103	$ 81,713
2022	74,610	6,088	80,698
2023	74,610	5,074	79,684
2024	74,610	4,059	78,669
2025	74,610	3,044	77,654
2026-2027	149,223	3,044	152,267
Totals	$ 522,273	$ 28,412	$ 550,685

Note 10: Operating Leases

The District leases office space and office equipment from unrelated organizations.

Future minimum lease payments, by year and in the aggregate, under non-cancelable lease agreements are as follows for the years ending June 30:

2021	$ 293,456
2022	160,373
2023	33,630
2024	8,408
Total	$ 495,867

Total rental expense was approximately $344,008 in 2020 and $391,050 in 2019.

Note 11: Net Patient Service Revenue

Net patient and resident service revenue consisted of the following for the years ended June 30:

	2020	2019
Gross patient service revenue:		
Medicare	$ 1,482,162	$ 1,782,175
Medical	7,388,700	7,604,677
Other third-party payors	796,677	676,768
Patient	550,914	327,778
Total	10,218,453	10,391,398
340b contract pharmacies	343,030	409,782
Capitated revenue	241,478	194,210
Total gross patient service revenue	10,802,961	10,995,390
Less:		
Contractual allowances and discounts	3,219,282	4,037,959
Sliding fee discounts	422,665	202,032
Provision for bad debts	132,758	658,469
Net patient service revenue	$ 7,028,256	$ 6,096,930

Note 12: 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 $68,000 and $71,000 for the years ended June 30, 2020 and 2019, respectively. Employee contributions to the plans were approximately $98,000 and $110,000 for the years ended June 30, 2020 and 2019, respectively.

Note 13: Lease Revenue

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.

Under the lease agreements, 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 after four years 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.

Lease payments are due January 1 of each year. At June 30, 2019, and 2018, the District recorded deferred lease revenue for hospital real property and equipment of $1,000,000.

Note 14: 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. The funds used to support operations were $740,612 and $696,070 for the years ended June 30, 2020 and 2019, respectively.

Note 15: 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 13.

Workers’ compensation program

The District is a participant in the Association of California Hospital District’s Beta Healthcare Group (the "Group"), which administers a self-insured workers’ compensation plan for participating hospital employees of its member hospitals. The District pays premiums to the Group which are adjusted annually. If participation in the Group 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.

Litigation

The District may, from time to time, be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2020, will be resolved without material adverse effect on the District’s future financial position, results from operations, or cash flows.

Note 15: Risk Management and Contingencies (Continued)

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, 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.

Note 16: Charity Care

The District provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides.

The costs of caring for charity care patients for the years ended June 30, 2020 and 2019, were approximately $361,000 and $161,000, respectively. Funds received from grants to subsidize charity care services, among other purposes, provided for the years ended June 30, 2020 and 2019, were approximately $1,533,000 and $1,583,000, respectively.

Note 17: Concentration of Credit Risk

Financial instruments that subject the District to possible credit risk consist principally of patient accounts receivable, cash deposits in excess of insured limits, and investments of surplus operating funds.

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 mix of receivables from patients and third-party payors was as follows at June 30:

	2020	2019
Medicare	12 %	16 %
Medi-Cal	74 %	71 %
Other third-party payors	11 %	12 %
Patients	3 %	1 %
Totals	100 %	100 %

Providers

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

Note 18: COVID-19 Relief Funds and Grant Revenue

During 2020, the District received $966,825 in grant funding from the HHS Provider Relief Fund, which was established as a result of the CARES Act. Based on the terms and conditions of the grant, the District earns the grant by incurring healthcare-related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, or by incurring lost revenues, defined as a negative change in year over-year net patient revenue. During 2020, the District recognized $161,263 in grant revenue related to this program, which reflects management's estimate of the amount of the grant earned, including consideration for uncertainties related to reporting guidance still developing as of the date the financial statements were available to be issued. Unearned grant revenue consisted of the following at June 30:

	2020	2019
Provider Relief Funds	$ 805,562	$ -
HealthNet Telehealth Capacity Grant	111,092	-
Totals	$ 916,654	$ -

Note 19: Reclassification

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 classifications.

Supplementary Information

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Grantor/Program Title	Contract Number or Pass Through Identifying Number	Entity Passed Through	Federal CFDA Number	Grantor's Time Period	Program or Award Amount	Federal Expenditures
U.S. Department of Health and Human Services:						
Health Centers Cluster:						
Community Health Centers:						
Health Center Program	6 H80CS26610-07-00	Direct	93.224	February 1, 2020 to January 31, 2021	$ 1,532,907	$ 638,711
COVID-19 - Coronavirus Supplemental Funding for Health Centers	1 H8CCS34210-01-00	Direct	93.224	March 15, 2020 to March 14, 2021	59,448	59,448
COVID-19 - Health Center Coronavirus Aid, Relief, and Economic Security Act Funding	1 H8DCS35804-01-00	Direct	93.224	April 1, 2020 to March 31, 2021	686,510	309,791
Total Community Health Centers						1,007,950
Grants for New and Expanded Services Under the Health Centers Program	6 H80CS26610-06-11	Direct	93.527	February 1, 2019 to January 31, 2020	1,532,907	894,196
Total Health Centers Cluster						1,902,146
COVID-19 - Provider Relief Fund	N/A	Direct	93.498	N/A	966,825	161,263
Small Health Care Provider Quality Improvement	6 G20RH30131-03-01	Direct	93.912	August 1, 2018 to July 31, 2019	200,000	16,667
Support for Ombudsman and Beneficiary Counseling for States Participating in Financial Alignment Model Demonstrations for Dually Eligible Individuals	16-93569	California Department of Health Care Services	93.364	January 1, 2018 to December 31, 2020	531,720	181,159
Total expenditures of federal awards						$ 2,261,235

See Independent Auditor's Report.

See notes to schedule of expenditures of federal awards.

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Note 1: General

The accompanying schedule of expenditures of federal awards includes the federal award activity of Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the schedule presents only a selected portion of the operations of Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District, it is not intended to and does not present the financial position, changes in assets, or cash flows of Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District.

Note 2: Basis of Accounting

The expenditures reported on the 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.

Note 3: Indirect Cost Rate

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Sub-Recipients

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District passed no federal awards through to subrecipients.

WIPFLI

Independent Auditor's 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 d/b/a Morongo Basin Healthcare District
Yucca Valley, CA

We have audited, in accordance with auditing standards generally accepted in the United States 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 d/b/a Morongo Basin Healthcare District (a nonprofit organization), which comprise the statement of net position as of June 30, 2020, 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 November 4, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's internal control over financial reporting (internal control) as a basis for designing the 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 Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare 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 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.

WIPFLI

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District'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 Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP
Oakland, California

November 4, 2020

WIPFLI

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District
Yucca Valley, CA

Report on Compliance for Each Major Federal Program

We have audited Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020. Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare 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 major federal program. However, our audit does not provide a legal determination on Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

WIPFLI

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 Finding 2020.001. Our opinion on the 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 subjected 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 Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare 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 Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 or 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 Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare 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 a 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control over compliance that we consider to be a material weakness as described in the accompanying schedule of findings and questioned costs as Finding 2020.001.

WIPFLI

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.

Wipfli LLP

Wipfli LLP
Oakland, California

November 4, 2020

Hi-Desert Memorial Health Care District d/b/a Morongo Basin Healthcare District

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(ies) identified?	___ yes _x_ no
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_x_ yes ___ no
Significant deficiency(ies) identified?	___ yes _x_ no
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]?	_x_ yes ___ no

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
93.527 / 93.224	Health Center Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

Federal	$750,000

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

Finding Number:	2020.001
Repeat Finding:	No
CFDA Title:	Health Centers Cluster
CFDA Number:	93.527/93.224
Federal Agency:	U.S. Department of Health and Human Services
Federal Award No:	H80CS26610-07-00
Question Costs:	N/A
Type of Finding:	Noncompliance, Material Weakness
Compliance Requirement:	Special Tests and Provisions

Criteria:

Health centers must prepare and apply the sliding fee discount schedule and policy so that the amounts owed for health center services by eligible patients are adjusted based on the patient's ability to pay (42 USC 254(k)(3)(E), (F), and (G); 42 CFR sections 51c.303(e), (f), and (g); and 42 CFR sections 56.303(e), (f), and (g))

Condition:

The District lacked adequate controls over its sliding fee discount program to ensure applications were properly processed, recorded, and patients received the correct discount. For patient files reviewed who received a sliding fee discount, the followingg instances of noncompliance were noted:

- For two of 40 patient files reviewed who received a sliding fee discount, the patient was given an incorrect discount percentage based on the District's policy.
- For four of 40 patient files reviewed who received a sliding fee discount, the patient applications were not retained.
- For five of 40 patient files reviewed who received a sliding fee discount, the patient's income on the application did not agree to the information entered into the system.

Cause:

The District did not have a review process in place to verify that eligible patients completed the required application to receive a sliding fee discount and each application contained the required information. Additionally, the District did not verify the applicable sliding fee discount was applied according to the District’s policy.

Effect:

Missing applications and income information 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.

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 police. This will ensure the District can detect and prevent ineligible patients from receiving the discount and comply with federal compliance requirements. To help ensure that sliding fee discounts are properly calculated and documented, the District should increase the frequency of random reviews of its sliding fee discounts applications in order to help detect and correct errors or incomplete applications on a timely basis.
View of Responsible Officials:	See corrective action plan.

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HEALTHCARE DISTRICT
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Corrective Action Plan for Current Year Findings

2019-001 – Material Adjustment

Criteria
Health center must prepare and apply the sliding fee discount schedule and policy so that the amounts owed for health care services by eligible patients are adjusted based on the patient's ability to pay.

Corrective Action Plan

A random selection of forty 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 review 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.

Person(s) Responsible: Jacqueline Combs, CEO

Timing for Implementation: December 1, 2020.

Jacqueline Combs, RN, MSN, CEO
Hi-Desert Memorial Health Care District
dba Morongo Basin Healthcare District,
Morongo Basin Community Health Center