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

Basic Financial Statements and Independent Auditors' Reports

June 30, 2023 and 2022

ACCOUNTANTS | ADVISORS

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
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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 Audit of the Financial Statements

Opinion

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 years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has not presented 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 purposes of additional analysis as required by the Uniform Guidance 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 of America. 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 February 7, 2024, 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, 2023. We issued a similar report for the year ended June 30, 2022, dated March 27, 2023, which has not been included with the 2022 financial compliance report. The purpose of those reports 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 the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

DZA

Spokane Valley, Washington
February 7, 2024

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Basic Statements of Net Position
June 30, 2023 and 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2023**	**2022**
Current assets		
Cash and cash equivalents	**$ 1,779,337**	$ 10,010,869
Investments	**30,873,239**	16,485,447
Receivables:		
Patients, net	**742,727**	573,532
Estimated third-party payor settlements	**-**	7,813
Accrued interest	**598,694**	615,392
Lease	**874,628**	769,217
Grants	**78,280**	600,801
Other	**224,405**	254,323
Prepaid expenses	**156,279**	323,410
Total current assets	**35,327,589**	29,640,804
Noncurrent assets		
Lease receivable	**26,935,993**	27,581,041
Capital assets, net	**8,291,977**	8,656,849
Total noncurrent assets	**35,227,970**	36,237,890
Total assets	**70,555,559**	65,878,694
Deferred outflows of resources		
Prepaid water treatment capacity fee	**298,442**	373,052
Total assets and deferred outflows of resources	**$ 70,854,001**	$ 66,251,746

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Basic Statements of Net Position (Continued)
June 30, 2023 and 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**2023**	**2022**
Current liabilities		
Accounts payable	**$ 249,113**	$ 565,501
Accrued payroll and related liabilities	**321,027**	265,626
Accrued paid time off	**220,466**	292,127
Estimated third-party payor settlements	**2,143,482**	-
Current portion of long-term debt	**74,610**	74,610
Current maturities of lease liabilities	**60,053**	61,029
Unearned grant revenue	**155,077**	-
Total current liabilities	**3,223,828**	1,258,893
Noncurrent liabilities		
Long-term debt, net of current portion	**223,831**	298,442
Lease liabilities, net of current maturities	**58,070**	27,652
Total noncurrent liabilities	**281,901**	326,094
Total liabilities	**3,505,729**	1,584,987
Deferred inflows of resources		
Deferred lease revenue for hospital real property and fixed equipment	**28,375,545**	29,427,510
Net position		
Net investment in capital assets	**8,173,854**	8,568,168
Unrestricted	**30,798,873**	26,671,081
Total net position	**38,972,727**	35,239,249
Total liabilities, deferred inflows of resources, and net position	**$ 70,854,001**	$ 66,251,746

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Basic Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
Operating revenues		
Net patient service revenue	**$ 7,072,021**	$ 9,155,746
Grants	**2,927,020**	2,966,580
Lease revenue for hospital real property and fixed equipment	**4,280,312**	4,007,536
Other	**447,510**	319,701
Total operating revenues	**14,726,863**	16,449,563
Operating expenses		
Salaries and wages	**6,690,357**	6,256,962
Employee benefits	**1,517,756**	1,353,884
Contract labor	**32,826**	53,703
Professional fees	**1,338,751**	2,014,056
Purchased services	**708,893**	661,190
Supplies	**995,277**	1,401,178
Insurance	**231,825**	196,100
Leases and rentals	**176,369**	170,179
Depreciation and amortization	**975,452**	1,062,685
Repairs and maintenance	**71,195**	75,579
Utilities	**111,920**	99,294
Information technology, network, and phones	**362,153**	393,982
Other	**414,828**	349,331
Total operating expenses	**13,627,602**	14,088,123
Operating income	**1,099,261**	2,361,440
Nonoperating revenues (expenses)		
Tax revenue	**1,013,328**	875,369
Loss on disposal of assets	**(21,618)**	-
Investment income (loss), net	**89,745**	(712,138)
Rental income	**98,044**	97,020
Lease interest income	**1,216,168**	1,258,682
Contributions	**360,664**	413,181
Transfer to Hi-Desert Memorial Health Care Foundation	**-**	(112,393)
Total nonoperating revenues, net	**2,756,331**	1,819,721
Gain (loss) from discontinued hospital operations		
Net patient service revenue	**(122,114)**	1,533
Change in net position	**3,733,478**	4,182,694
Net position, beginning of year	**35,239,249**	31,056,555
Net position, end of year	**$ 38,972,727**	$ 35,239,249

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Basic Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from and on behalf of patients	**$ 8,961,925**	$ 12,345,582
Cash received from grants	**3,604,618**	2,447,734
Cash received from lease of hospital real property and fixed equipment	**5,000,850**	4,728,078
Cash received from other revenue	**447,510**	319,701
Cash paid to and on behalf of employees	**(8,224,373)**	(7,606,839)
Cash paid to suppliers and contractors	**(4,158,020)**	(4,868,850)
Net cash from operating activities	**5,632,510**	7,365,406
Cash flows from noncapital financing activities		
Taxes received	**1,013,328**	875,369
Principal payments on long-term debt	**(74,611)**	(74,610)
Principal payments on leases	**(111,208)**	(147,893)
Contributions	**-**	3,354
Transfer to Hi-Desert Memorial Health Care Foundation	**-**	(112,393)
Net cash from noncapital financing activities	**827,509**	543,827
Cash flows from capital and related financing activities		
Purchase of capital assets	**(491,548)**	(91,813)
Cash flows from investing activities		
Purchases of investments	**(14,387,792)**	-
Interest received	**89,745**	1,532
Rental income	**98,044**	97,020
Net cash from investing activities	**(14,200,003)**	98,552
Net change in cash and cash equivalents	**(8,231,532)**	7,915,972
Cash and cash equivalents, beginning of year	**10,010,869**	2,094,897
Cash and cash equivalents, end of year	**$ 1,779,337**	$ 10,010,869

See accompanying notes to basic financial statements.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Basic Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022

	2023	2022
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	**$ 1,099,261**	$ 2,361,440
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	**975,452**	1,062,685
Provision for bad debts	**68,099**	172,741
Lease interest income	**1,216,168**	1,258,682
Noncash contributions	**360,664**	409,827
Net patient service revenue from discontinued hospital operations	**(122,114)**	1,533
Change in assets:		
Receivables:		
Patients, net	**(237,294)**	8,071
Estimated third-party payor settlements	**7,813**	3,179,095
Grants	**522,521**	(518,846)
Other	**29,918**	(171,604)
Lease	**556,335**	(28,965,650)
Prepaid expenses	**167,131**	(127,508)
Prepaid water treatment capacity fee	**74,610**	74,611
Change in liabilities:		
Accounts payable	**(316,388)**	188,812
Accrued payroll and related liabilities	**55,401**	49,009
Accrued paid time off	**(71,661)**	(45,002)
Unearned grant revenue	**155,077**	-
Estimated third-party payor settlements	**2,143,482**	-
Deferred lease revenue for hospital real property and fixed equipment	**(1,051,965)**	28,427,510
Net cash from operating activities	**$ 5,632,510**	$ 7,365,406

Noncash capital and noncapital financing activities:

The District recognized lease liabilities and right-of-use assets totaling $140,650 and $236,574 during the years ended June 30, 2023 and 2022, respectively.

The District also recognized lease receivable and deferred inflows of resources in the amount of $29,706,967 during the year ended June 30, 2022.

See accompanying notes to basic financial statements.

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.

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

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*.

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.

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

b. Summary of Significant Accounting Policies (continued)

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.

Changes in accounting principle **–** In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-of-use subscription asset — an intangible asset — and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The new guidance is effective for the District's year ended June 30, 2023. The adoption had no material impact on the financial statements of the District.

Subsequent events **–** The District has evaluated subsequent events through February 7, 2024, 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.

3. Investments:

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

	2023				
		Investment Maturities (in Years)			
	Fair Value	Less than One	One to Five	Over Five	Investment Ratings
Cash and money market accounts	**$ 2,977,783**	$ 2,977,783	$ -	$ -	Not applicable
Certificates of deposit	**2,179,587**	247,014	1,657,456	275,117	Not applicable
Corporate bonds and notes	**431,477**	-	348,473	83,004	AA+ - AAA
U.S. treasury notes	**5,673,629**	4,434,921	1,238,708	-	Not applicable
U.S. agency obligations	**7,553,495**	1,725,615	3,387,796	2,440,084	AA+
Mortgage backed securities	**12,057,268**	1,432,536	8,770,733	1,853,999	AA+
Total investments	**$ 30,873,239**	$ 10,817,869	$ 15,403,166	$ 4,652,204	

	2022				
		Investment Maturities (in Years)			
	Fair Value	Less than One	One to Five	Over Five	Investment Ratings
Cash and money market accounts	**$ 2,514,039**	$ 2,514,039	$ -	$ -	Not applicable
Certificates of deposit	**2,142,967**	1,659,795	483,172	-	Not applicable
Corporate bonds and notes	**437,776**	-	-	437,776	AA- - AA+
U.S. treasury notes	**1,733,974**	992,418	741,556	-	Not applicable
U.S. agency obligations	**3,854,114**	454,659	2,504,626	894,829	AA+
Mortgage backed securities	**5,802,577**	299,894	3,653,034	1,849,649	AA+
Total investments	**$ 16,485,447**	$ 5,920,805	$ 7,382,388	$ 3,182,254	

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.

3. Investments (continued):

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.

Fair value measurement – 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:

	2023			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	$ 2,977,783	$ -	$ -	**$ 2,977,783**
Certificates of deposit	-	2,179,587	-	**2,179,587**
Corporate bonds and notes	-	431,477	-	**431,477**
U.S. treasury notes	-	5,673,629	-	**5,673,629**
U.S. agency obligations	-	7,553,495	-	**7,553,495**
Mortgage backed securities	-	12,057,268	-	**12,057,268**
Total investments	**$ 2,977,783**	**$ 27,895,456**	**$ -**	**$ 30,873,239**

	2022			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	$ 2,514,039	$ -	$ -	**$ 2,514,039**
Certificates of deposit	-	2,142,967	-	**2,142,967**
Corporate bonds and notes	-	437,776	-	**437,776**
U.S. treasury notes	-	1,733,974	-	**1,733,974**
U.S. agency obligations	-	3,854,114	-	**3,854,114**
Mortgage backed securities	-	5,802,577	-	**5,802,577**
Total investments	**$ 2,514,039**	**$ 13,971,408**	**$ -**	**$ 16,485,447**

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.

3. Investments (continued):

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.

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. 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 write-offs from third-party payors.

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

	2023	**2022**
Receivables from patients and their insurance carriers	**$ 212,257**	$ 116,054
Receivables from Medicare	**72,134**	102,438
Receivables from Medi-Cal	**1,024,279**	811,386
Total patient accounts receivable	**1,308,670**	1,029,878
Less allowance for uncollectible accounts	**565,943**	456,346
Patient accounts receivable, net	**$ 742,727**	$ 573,532

5. Lease Receivable:

The District entered into a lease agreement with HDMC Holdings effective July 15, 2015. Under the lease agreement, all hospital 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 (QAF) funding levels. In 2023 and 2022, the District received approximately $3,001,000 and $2,728,000, respectively, of additional lease payments due to QAF 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.

The District also entered into lease agreements with other organizations for the rental of premises effective in 2023. The terms of the leases are three-year terms, with annual rent ranging from approximately $17,000 to $40,000. The leases do not contain a purchase option to purchase the real property at fair market value at termination of the leases.

The District has recorded lease receivables measured at the present value of lease payments expected to be received during the lease terms. Deferred inflows of resources has been recorded for the lease representing the future inflows of resources over the term of the leases. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the leases.

Schedule of future lease payments to be collected follows:

Years Ending June 30,	Principal	Interest	Total Payments
2024	$ 874,628	$ 1,199,736	$ 2,074,364
2025	916,103	1,157,195	2,073,298
2026	949,333	1,110,567	2,059,900
2027	911,600	1,068,612	1,980,212
2028	951,176	1,029,587	1,980,763
2029-2033	5,406,681	4,474,548	9,881,229
2034-2038	6,690,595	3,164,174	9,854,769
2039-2043	8,275,309	1,545,061	9,820,370
2044-2045	2,835,196	103,262	2,938,458
	$ 27,810,621	**$ 14,852,742**	**$ 42,663,363**

6. Capital Assets:

Capital assets are assets with an individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets, other than lease assets, are recorded at historical cost if purchased or constructed. Donated capital assets are stated at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are charged to operations as incurred. Lease assets are stated at the present value of the future lease payments plus any payments made at or before the start of the lease and costs to place the asset in service. Lease assets are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Gains or losses on sales and retirements are included in nonoperating revenues and expenses. Depreciation and amortization is provided over the estimated useful lives of assets as determined from the American Hospital Association's published tables and management's estimate by the straight-line method using these asset lives:

Land improvements	5 to 20 years
Buildings and improvements	5 to 39 years
Equipment	3 to 20 years
Lease assets:	
Buildings	2 years
Equipment	3 years

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

	Balance June 30, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Capital assets not being depreciated					
Land	$ 1,380,234	$ -	$ -	$ -	**$ 1,380,234**
Construction in progress	-	436,909	-	-	**436,909**
Total capital assets not being depreciated	1,380,234	436,909	-	-	**1,817,143**
Capital assets being depreciated					
Land improvements	4,605,428	-	-	-	**4,605,428**
Buildings and improvements	34,325,301	-	(32,427)	-	**34,292,874**
Equipment	3,725,797	54,639	(24,308)	-	**3,756,128**
Lease assets					
Buildings	184,657	93,849	(116,266)	-	**162,240**
Equipment	51,917	46,801	-	-	**98,718**
Total capital and lease right-of-use assets being depreciated	42,893,100	195,289	(173,001)	-	**42,915,388**
Less accumulated depreciation and amortization for					
Land improvements	(2,763,604)	(170,859)	-	-	**(2,934,463)**
Buildings and improvements	(29,596,629)	(520,361)	10,809	-	**(30,106,181)**
Equipment	(3,102,682)	(192,621)	24,308	-	**(3,270,995)**
Lease assets					
Buildings	(130,497)	(42,016)	116,266	-	**(56,247)**
Equipment	(23,073)	(49,595)	-	-	**(72,668)**
Total accumulated depreciation and amortization	(35,616,485)	(975,452)	151,383	-	**(36,440,554)**
Total capital assets being depreciated and amortized, net	7,276,615	(780,163)	(21,618)	-	**6,474,834**
Capital assets, net	**$ 8,656,849**	**$ (343,254)**	**$ (21,618)**	**$ -**	**$ 8,291,977**

6. Capital Assets (continued):

Construction in progress at June 30, 2023, consisted primarily of land, survey work, and construction work on a new clinic building in Twentynine Palms, California. The District plans to use existing cash and grants to finance the project. The estimated cost to complete this project is approximately $823,000. As of the report date, the expected completion date could not be determined by the District.

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

	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022
Capital assets not being depreciated					
Land	$ 1,380,234	$ -	$ -	$ -	**$ 1,380,234**
Capital assets being depreciated					
Land improvements	4,605,428	-	-	-	**4,605,428**
Buildings and improvements	34,293,576	31,725	-	-	**34,325,301**
Equipment	3,665,709	60,088	-	-	**3,725,797**
Lease assets					
Buildings	-	184,657	-	-	**184,657**
Equipment	-	51,917	-	-	**51,917**
Total capital and lease right-of-use assets being depreciated	42,564,713	328,387	-	-	**42,893,100**
Less accumulated depreciation and amortization for					
Land improvements	(2,584,795)	(178,809)	-	-	**(2,763,604)**
Buildings and improvements	(29,066,568)	(530,061)	-	-	**(29,596,629)**
Equipment	(2,902,437)	(200,245)	-	-	**(3,102,682)**
Lease assets					
Buildings	-	(130,497)	-	-	**(130,497)**
Equipment	-	(23,073)	-	-	**(23,073)**
Total accumulated depreciation and amortization	(34,553,800)	(1,062,685)	-	-	**(35,616,485)**
Total capital assets being depreciated and amortized, net	8,010,913	(734,298)	-	-	**7,276,615**
Capital assets, net	**$ 9,391,147**	**$ (734,298)**	**$ -**	**$ -**	**$ 8,656,849**

The District leased capital assets with a net book value of $4,435,208 and $5,176,596 to HDMC Holdings during the years ended June 30, 2023 and 2022, respectively. Depreciation expense on the leased assets for the years ended June 30, 2023 and 2022, was $741,388 and $759,545, 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.

8. Long-term Debt and Lease Liabilities:

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

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amount Due Within One Year
Long-term debt					
Note payable to Joshua Basin Water District	$ 373,052	$ -	$ (74,611)	$ 298,441	**$ 74,610**
Lease liabilities					
Green Building Suite D	42,856	-	(21,220)	21,636	**21,636**
Green Building Suite C	-	93,849	(7,372)	86,477	**28,407**
Iron Mountain	16,374	-	(16,374)	-	**-**
Canon Solutions America	29,451	-	(23,435)	6,016	**3,994**
Other leases	-	46,801	(42,807)	3,994	**6,016**
Total lease liabilities	88,681	140,650	(111,208)	118,123	**60,053**
Total long-term debt and lease liabilities	**$ 461,733**	**$ 140,650**	**$ (185,819)**	**$ 416,564**	**$ 134,663**

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Amount Due Within One Year
Long-term debt					
Note payable to Joshua Basin Water District	$ 447,662	$ -	$ (74,610)	$ 373,052	**$ 74,610**
Lease liabilities					
Green Building Suite D	-	43,559	(703)	42,856	**21,220**
Iron Mountain	-	24,832	(8,458)	16,374	**16,374**
Canon Solutions America	-	51,917	(22,466)	29,451	**23,435**
Town Center Mall LLC	-	116,266	(116,266)	-	**-**
Total lease liabilities	-	236,574	(147,893)	88,681	**61,029**
Total long-term debt and lease liabilities	**$ 447,662**	**$ 236,574**	**$ (222,503)**	**$ 461,733**	**$ 135,639**

Long-term debt – The terms and due dates of the District's long-term debt are as follows:

- 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 (3.15 percent and 0.75 percent at June 30, 2023 and 2022, respectively, through July 2026 for prepaid water treatment capacity fee.

8. Long-term Debt and Lease Liabilities (continued):

Lease liabilities **–** The terms and due dates of the District's lease liabilities are as follows:

- Lease liability payable for a building lease for The Green Professional Building Suite D in the amount of $43,559, due in monthly installments at $1,917, including interest at 5.75 percent, through June 2024.
- Lease liability payable for a building lease for The Green Professional Building Suite C in the amount of $93,849, due in monthly installments ranging from $2,910 to $3,027 including interest at 9.00 percent, through March 2026.
- Lease liability payable to Iron Mountain, paid in full during 2023.
- Lease liability payable to Cannon Solutions America for copiers in the amount of $51,917, due in monthly installments of $2,020, including interest at 4.25 percent, through September 2023.
- Other lease liability payables in the amount of 46,801, due in monthly installments ranging from $476 to $515, including interest at 5.75 percent, through February 2024.

The District's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Lease liabilities are reflected in the District's assets and liabilities.

Schedule of principal and interest payments on long-term debt and lease liabilities are as follows:

	Long-term Debt			Lease Liabilities		
Years Ending June 30,	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2024	$ 74,610	$ 6,825	**$ 81,435**	$ 60,053	$ 7,877	**$ 67,930**
2025	74,610	8,036	**82,646**	31,830	3,958	**35,788**
2026	74,610	5,357	**79,967**	26,240	1,001	**27,241**
2027	74,611	2,678	**77,289**	-	-	**-**
	$ 298,441	**$ 22,896**	**$ 321,337**	**$ 118,123**	**$ 12,836**	**$ 130,959**

9. 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 write-offs have not changed significantly between 2023 and 2022. The District has not changed its charity care and uninsured discount policies during fiscal years 2023 or 2022.

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:

	2023	2022
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 282,008**	$ 442,789
Medi-Cal	**5,716,600**	7,607,918
Patients and other third-party payors	**1,031,323**	1,293,828
340B contract pharmacies	**437,824**	545,799
	7,467,755	9,890,334
Less:		
Sliding fee discounts	**(327,635)**	(561,847)
Provision for bad debts	**(68,099)**	(172,741)
Net patient service revenue	**$ 7,072,021**	$ 9,155,746

9. 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.
- *Medi-Cal Managed Care* – The District is paid on a capitation basis for certain Medi-Cal Managed Care patients. Medi-Cal pays the District for the difference between the Medi-Cal prospective rates per visit and the capitation payments (on a per visit basis). Medi-Cal prepares an annual reconciliation to settle the interim payments to the calculated difference. The District has estimated liabilities in the amounts of $1,486,395 and $682,741 for the years ended June 30, 2023 and 2022, respectively, for outstanding managed care reconciliations.
- 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. Net patient service revenue decreased by approximately $683,000 due to differences between original and revised estimates for the year ended June 30, 2023.

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, 2023 and 2022, were approximately $320,000 and $748,000, respectively. Funds received from grants to subsidize charity care services, among other purposes, provided for the years ended June 30, 2023 and 2022, were approximately $2,726,000 and 2,563,000, respectively.

10. Property Taxes:

The District receives financial support from property taxes. Property taxes are levied by San Bernardino County (the County) on the District's behalf during the year and are intended to help finance the District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. 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.

11. 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 $129,000 and $117,000 for the years ended June 30, 2023 and 2022, respectively. Employee contributions to the plans were approximately $255,000 and $251,000 for the years ended June 30, 2023 and 2022, respectively.

12. 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.

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.

13. 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:

	2023	2022
Medi-Cal	**78 %**	79 %
Medicare	**6**	10
Other third-party payors	**15**	8
Patients	**1**	3
	100 %	100 %

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

SINGLE AUDIT

AUDITORS' SECTION

ACCOUNTANTS | ADVISORS

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, 2023, 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 February 7, 2024.

Report on 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.

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Report on 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.

DZA

Spokane Valley, Washington
February 7, 2024

ACCOUNTANTS | ADVISORS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR THE 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 the District's Major Federal Program

Opinion on the 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 identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 the major federal program for the year ended June 30, 2023.

Basis for Opinion on the Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

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Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

DZA

Spokane Valley, Washington
February 7, 2024

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I – Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	***Unmodified***			
Internal control over financial reporting:				
• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified?	____	yes	X	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal Awards:

Internal control over major program:				
• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified?	____	yes	X	none reported
Type of auditors' report issued on compliance for major federal program:	***Unmodified***			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____	yes	X	no

Identification of major federal program:

Assistance Listing Number(s)	*Name of Federal Program or Cluster*
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?	X	yes	____	no

Section II – Financial Statement Findings

There are no matters reported for 2023. Therefore, no corrective action plan is necessary, nor has one been prepared.

Section III – Federal Award Findings and Questioned Costs

There are no matters reported for 2023. Therefore, no corrective action plan is necessary, nor has one been prepared.

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, 2023

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			$ 678,395
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		COVID-19	897,889
Grants for New and Expanded Services under the Health Center Program	93.527			1,149,680
Total Health Center Program Cluster				2,725,964
Total United States Department of Health and Human Services Direct Programs				2,725,964
United States Department of Transportation Pass-through Programs From:				
Reach Out Morongo Basin				
Enhanced Mobility for Seniors and Individuals with Disabilities Program	20.513	N/A		53,775
Total expenditures of federal awards				**$ 2,779,739**

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, 2023. 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.

Hi-Desert Memorial Health Care District
doing business as Morongo Basin Healthcare District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

The single audit for the year ended June 30, 2022, reported no audit findings, nor were there any unresolved findings from periods ended June 30, 2021, or prior. Therefore, there are no matters to report in this section for the year ended June 30, 2023.