



REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS WITH REQUIRED  
SUPPLEMENTARY INFORMATION

PIONEERS MEMORIAL HEALTHCARE DISTRICT

June 30, 2019 and 2018



## Table of Contents

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	PAGE
<b>Management's Discussion and Analysis</b> <b>(Required Supplementary Information)</b>	1–15
<b>Report of Independent Auditors</b>	16–17
<b>Financial Statements</b>	
Statements of net position	18
Statements of revenues, expenses, and changes in net position	19
Statements of cash flows	20–21
Notes to financial statements	22–40

## Pioneers Memorial Healthcare District Management's Discussion and Analysis

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Pioneers Memorial Healthcare District's (the "District's") discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position, and identify any material deviations from the financial plan (the approved budget). Unless otherwise noted, all discussion and analysis pertains to the District's financial condition, results of operations, and cash flows as of and for the years ended June 30, 2019, 2018, and 2017. Please read it in conjunction with the financial statements in this report.

### Financial Highlights

Financial operations for fiscal year 2019 resulted in a decline in net position of approximately \$2,122,000 against an increase in net position of approximately \$4,278,000 in fiscal year 2018. The decline was due primarily to an increase in the District's operating expenses with only marginal growth in revenues.

In fiscal year 2019, the Pioneers Memorial Healthcare District experienced a decline of approximately 9 percent for inpatient admissions. Consequently, inpatient days fell by 8.4 percent which negatively affected inpatient ancillary revenues and room charges. The reduction of inpatient admissions was partly due to an industry trend away from inpatient care to the delivery of services on an outpatient basis. This trend is driven by pressure applied by the Center of Medicare and Medicaid Services ("CMS") and major managed care payers seeking to drive down inpatient admissions in exchange for a lower cost outpatient care.

During fiscal year 2019, CMS removed some diagnoses from the "inpatient only" list thus shifting the care to an outpatient basis. In addition, several changes were enacted to the Interqual criteria (assessment tool used to determine clinical justification for inpatient status) which tightened the criteria necessary to support or justify an inpatient admission. These changes had the effect of reducing inpatient admissions in favor of "observation" admits, which is an outpatient classification for patients not meeting inpatient criteria. Under observation status, patients are retained and "observed" for up to 48 hours to determine if they meet the criteria for inpatient status. If not, they are discharged home or to other status of care. Observations are reimbursed by Medicare and some payers as outpatient visits, but at a much lower rate.

The effect of these factors can be seen in the following analysis. In fiscal year 2018 hospital inpatient admissions numbered 5,655 while observation admits numbered 703. In fiscal year 2019, the number of inpatient admissions fell to 5,146, a decline of 9.0 percent, while observation admissions increased to 954, an increase of 35.7 percent.

Unfortunately, the District was unable to adjust spending quickly enough to keep pace with the decline in volumes and revenues. During fiscal year 2019, operating expenses increased 6.0 percent over the previous year while both inpatient and outpatient volumes declined. The majority of the increase in spending occurred within Salaries and Wages (5.2 percent), Professional Fees (6.6 percent) and Contract Labor, which increased 121.2 percent.

# Pioneers Memorial Healthcare District Management's Discussion and Analysis

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## Capital Financing

In December of 2017 the District issued Hospital Revenue Bonds "Series 2017" to be used for modernization of existing facilities and new construction. Below is a summary of sources and uses of the Series 2017 bond proceeds:

Bond proceeds (sources)	
Par amount	\$ 15,640,000
Premium	714,690
	<hr/>
Total proceeds	<u>\$ 16,354,690</u>
Distribution of funds (uses)	
Project fund deposits	\$ 13,648,648
Debt reserve fund	968,300
Capitalized interest	924,465
Delivery date expenses	813,277
	<hr/>
Total distribution	<u>\$ 16,354,690</u>

## Capital Spending (Bond Projects)

During fiscal year 2019 the District spent \$5,616,000 in bond project funds on various projects. Total project spending to date sums to \$12,832,000. Below is a summary of that spending by major project:

	<u>Expenditures Fiscal Year 2019</u>	<u>Total to Date</u>	<u>Project Budget</u>
Operating room, cath lab	\$ 2,502,000	\$ 3,655,000	\$ 6,000,000
Emergency generator	6,000	835,000	1,300,000
Boiler replacement	13,000	1,973,000	1,600,000
Calexico Rural Health Clinic	2,029,000	3,718,000	3,200,000
Imaging Center	735,000	1,520,000	931,000
Other	331,000	1,131,000	615,000
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 5,616,000</u>	<u>\$ 12,832,000</u>	<u>\$ 13,646,000</u>

## Pioneers Memorial Healthcare District Management's Discussion and Analysis

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### Upgrades and Expansions

In December 2017 the District issued \$ 15,640,000 in bonds (Series 2017) backed by the revenues of the District for the purpose of financing a number of projects to both modernize the existing physical plant and add new services. Below is a list of the major projects which either became operational within the 2019 fiscal year or are expected to become operational within the 2020 fiscal year.

- Operating Room and Cardiac Catheterization Lab – The project added a fifth operating room with the addition of a full service Cardiac Catheterization Lab. The project is expected to be completed during the fall of 2019 with occupancy to begin in January of 2020.
- Upgrade to Emergency Generators and Boiler replacement – Project was completed during the 3rd quarter of FY 2019. All equipment is fully functional and operating.
- Expansion of the Calexico Rural Health Clinic (“RHC”) – Total renovation of existing 8,900-square-foot RHC, and the addition of 4,500 square feet. The project was completed in September 2019 with occupancy expected in October of 2019.
- Construction of a modular building connected with a covered walkway to the Hospital. The building was put in place to house an upgraded 3.0 Tesla large bore MRI along with other imaging equipment. The project was completed and became operational in the spring of 2019.

### Capital Spending (Other)

During fiscal year 2019, the District made the following capital expenditures greater than \$100,000 financed from hospital cash reserves:

<u>Capital Expenditure</u>	<u>Department</u>	<u>Amount</u>
Pediatric Health Clinic remodel	Ambulatory Serv.	\$ 179,000
Vitros 5600 integrated system	Operating Room	168,000
Laboratory information system	Clinical Laboratory	1,139,000
Mobile 40k Flex Plus digital xray	Imaging Services	145,000
V-PRO single door cabinet 208-2	Operating Room	128,000
ED Pulse Check Project	Emergency Room	465,000

### Required Financial Statements

The financial statements of the District include (a) statement of net position, (b) statement of revenues, expenses, and changes in net position, and (c) statement of cash flows. The statement of net position includes information about the nature of the District's assets and liabilities and classifies them as current or noncurrent. It also provides the basis for evaluation of the capital structure of the District and for assessing the liquidity and financial flexibility of the District.

# Pioneers Memorial Healthcare District

## Management's Discussion and Analysis

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### Required Financial Statements (continued)

The statement of revenues, expenses, and changes in net position measures the District's operations and can be used to determine whether the District has been able to recover all of its operating costs from patient service and other operating revenue sources. The primary purpose of the statement of cash flows is to provide information about the District's cash from operations, noncapital financing, capital and related financing, and investing activities. It provides answers to such questions as: What were the District's sources of cash? What was the cash used for? And what was the change in cash balances during the reporting period?

A summary of the District's statement of net position as of June 30, 2019 and 2018, is presented in Table 1 below:

	Condensed Statement of Net Position			
	2019	2018	\$ Change	% Change
<b>ASSETS</b>				
Current assets	\$ 51,486	\$ 48,550	\$ 2,936	6.0 %
Capital assets	34,432	30,536	3,896	12.8 %
Other assets	4,939	12,449	(7,510)	(60.3)%
Total assets	<u>\$ 90,857</u>	<u>\$ 91,535</u>	<u>\$ (678)</u>	<u>(0.7)%</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 21,486	\$ 18,073	\$ 3,413	18.9 %
Long-term debt and other	21,947	23,916	(1,969)	(8.2)%
Total liabilities	<u>43,433</u>	<u>41,989</u>	<u>1,444</u>	<u>3.4 %</u>
<b>NET POSITION</b>				
Total net position	<u>47,424</u>	<u>49,546</u>	<u>(2,122)</u>	<u>(4.3)%</u>
Total liabilities and net position	<u>\$ 90,857</u>	<u>\$ 91,535</u>	<u>\$ (678)</u>	<u>(0.7)%</u>

As reflected in Table 1 for fiscal year 2019 and 2018, net position (earnings) decreased by 4.3 percent for the year ended June 30, 2019. The District's current assets (cash and accounts receivable) increased by 6.0 percent due mainly to an increase in patient accounts receivable and the release of reserves held for potential refunds to the state pending a review of medical payments against the Upper Payment Limit. After extensive review and subsequent audits by the state, it was determined that the District was not liable for such refunds, and reserves of approx. \$2.7M were reversed. Capital assets (property, plant, and equipment) grew by 12.8 percent as projects funded by the Series 2017 Bonds were completed and capitalized in fiscal year 2019. The decline of other assets of 60.3 percent reflects the "draw down" of Trustee-held funds as bond financed projects were completed.

Total liabilities increased by 3.4 percent because of an 18.9 percent increase in trade accounts payable. Long-term debt was reduced by 8.2% with the continued principal reduction of the 2012 General Obligation Bonds. The General Obligation Bonds will be paid off in fiscal year 2024.

## Pioneers Memorial Healthcare District Management's Discussion and Analysis

### Required Financial Statements (continued)

A summary of the District's statement of net position as of June 30, 2018 and 2017, is presented in the Table 2 below:

	Condensed Statement of Net Position			
	2018	2017	\$ Change	% Change
<b>ASSETS:</b>				
Current assets	\$ 48,550	\$ 49,717	\$ (1,167)	(2.3)%
Capital assets	30,536	25,761	4,775	18.5 %
Other assets	12,449	1,945	10,504	540.1 %
	<u>\$ 91,535</u>	<u>\$ 77,423</u>	<u>\$ 14,112</u>	<u>18.2 %</u>
<b>LIABILITIES:</b>				
Current liabilities	\$ 18,073	\$ 22,925	\$ (4,852)	(21.2)%
Long-term debt and other	23,916	9,230	14,686	159.1 %
	<u>41,989</u>	<u>32,155</u>	<u>9,834</u>	<u>30.6 %</u>
<b>NET POSITION:</b>				
Total net position	<u>49,546</u>	<u>45,268</u>	<u>4,278</u>	<u>9.5 %</u>
	<u>\$ 91,535</u>	<u>\$ 77,423</u>	<u>\$ 14,112</u>	<u>18.2 %</u>

As reflected in Table 2 above, net position increased 9.5 percent for the year ended June 30, 2018. The District's current assets (cash and accounts receivable) decreased 2.3 percent due to a reduction in other receivables (non-patient related) along with a reduction of third-party settlements. The District's cash and investments, however, improved by approximately \$ 4,667,000 or 20.1 percent over the fiscal year 2017 reserves. Capital assets (property, plant, and equipment) grew 18.5 percent due to the acquisition of capital equipment and spending on Series 2017 Bond related projects. Other assets increased 540.1 percent and represents the proceeds received from the issuance of the Series 2017 Bonds and the related debt reserve and capital interest accounts.

Current liabilities decreased by 21.2 percent due to a reduction of short-term obligations, mostly short-term payables. Total liabilities, however, increased by 30.6 percent with the issuance of the Series 2017 Bonds totaling approximately \$ 16,355,000. The Series 2017 Bonds were issued on December 14, 2017, with the final maturity date October 1, 2047, and carry an average coupon rate of 4.45 percent.

# Pioneers Memorial Healthcare District Management's Discussion and Analysis

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## Required Financial Statements (continued)

The following table presents a summary of the District's revenues, expenses, and changes in net position for the years ended June 30, 2019 and 2018:

	Condensed Statement of Revenues, Expenses, and Changes in Net Position			
	2019	2018	Net Change	% Change
<b>OPERATING REVENUES:</b>				
Net patient service revenue	\$ 121,334	\$ 123,254	\$ (1,920)	(1.56)%
Other	4,396	3,244	1,152	35.51 %
Total operating revenues	125,730	126,498	(768)	(0.61)%
<b>OPERATING EXPENSES:</b>				
Salaries and wages	53,570	50,928	2,642	5.19 %
Medical and other supplies	21,053	20,163	890	4.41 %
Professional fees	15,441	14,487	954	6.59 %
Registry and contract labor	3,605	1,645	1,960	119.15 %
Other operating expenses	38,264	37,280	984	2.64 %
Total operating expenses	131,933	124,503	7,430	5.97 %
OPERATING INCOME (LOSS):	(6,203)	1,995	(8,198)	(410.93)%
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
District tax revenues	3,117	3,020	97	3.21 %
Interest income	1,019	132	887	671.97 %
Interest expense	(918)	(681)	(237)	34.80 %
Non-operating expenses	855	(287)	1,142	(397.91)%
Contributions, net	8	99	(91)	(91.92)%
Total non-operating revenues	4,081	2,283	1,798	78.76 %
CHANGE IN NET POSITION	(2,122)	4,278	(6,400)	(149.60)%
<b>NET POSITION:</b>				
Beginning of year	49,546	45,268	4,278	9.45 %
End of year	\$ 47,424	\$ 49,546	\$ (2,122)	(4.28)%

# Pioneers Memorial Healthcare District Management's Discussion and Analysis

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## Required Financial Statements (continued)

### Sources of Revenue

*Operating revenue* – In fiscal year 2019, the District derived 96.6 percent of its total operating revenue from patient care operations. Patient care operations include medically acute inpatient and outpatient care including physician care. The remaining portion of operating revenues includes cafeteria receipts, rebates, refunds, and fees.

*Non-operating revenue* – For the year ended June 30, 2019, the District derived 3.1 percent of its total revenue from investment income and property tax revenue. Investment revenues are derived from excess District funds invested in accordance with California Code 53600 under management by the Wealth Management Department, Rabobank. Property tax revenues are received from Imperial County for the stated purpose of servicing the District's outstanding debt (2004 and 2012 General Obligation Bonds) as well as to fund the cost of providing care to the county indigent.

### Operating and Financial Performance

The following summarizes the District's changes in patient volumes as well as changes in the statements of revenues, expenses, and changes in net position between the years ended June 30, 2019 and 2018.

### Patient Volumes

A review of maternity services revealed that the number of births remained steady between fiscal year 2019 and 2018, with 1,691 births presenting in 2019 down only slightly from 1,699 births recorded in fiscal year 2018. In fiscal year 2017, the District introduced "Couplet Care" and in fiscal year 2018 the District entered into an agreement with Rady's Children to offer advanced nursery care. The introduction of the aforementioned initiatives and the relatively young demographic within the District's primary service area has worked to stabilize maternity services.

Hospital Outpatient visits, mainly for Laboratory, Imaging, and other ancillary testing decreased 6.6 percent while Emergency room volumes declined 4.7 percent. Some of the decline is believed to be attributed to the emergence of active Independent Physician Associations ("IPAs") in the valley.

Surgical volumes improved by 5.4 percent over the previous year as recruited specialists in Urology, Gastroenterology, Interventional Radiology, and General Surgery are continuing to expand their respective practices. It is expected that the growth in specialty services will continue as the District completes the construction of the Cath Lab and opens a fifth operating room by January of 2020.

In total, the District's rural health center volumes increased by 9.1 percent. The Calexico Clinic and the Pioneer Health Center volumes decreased slightly during fiscal year 2019; however, the Children's Health Center, which opened in March 2018, reported volume increases of 470% during fiscal year 2019.

# **Pioneers Memorial Healthcare District Management's Discussion and Analysis**

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## **Required Financial Statements (continued)**

### **Revenues**

Net patient revenues for fiscal year 2019 fell by 1.56 percent from fiscal year 2018 net patient revenues. The decline was the result of approximately a 9.1 percent reduction of inpatient revenues along with approximately a 1.1 percent decline in outpatient revenues.

### **Operating Expenses (Material expense variances are explained below)**

Salaries and wages increased by approximately \$2,642,000, or 5.2 percent over the previous year, due to a 2.2 percent growth in the number of employees, primarily within clinic operations and the result of an "across the board" 2.5 percent annual merit increase implemented in fall of 2018.

Medical and other supply costs increased by approximately \$890,000, or 4.4 percent, due to higher purchases of prosthetic or specialty devices to keep pace with the growth of specialty surgery cases. Adding to the increased cost of supplies was a reduction of the 340-B program pharmacy revenues, which serves to offset the cost of pharmacy supply costs.

Professional fees increased by approximately \$954,000, or 6.6 percent, due to increases in the cost of Anesthesia and Interventional Radiology professional services agreements. In addition, the District added the Pediatric Rural Healthcare Clinic ("RHC") in March 2018 which generated approximately \$700,000 in additional professional fees and medical directorship costs.

Contract labor costs increased by approximately \$1,960,000, or 119.2 percent, due to significant utilization of registry nursing personnel to staff the emergency room, obstetrical floor, and medical surgical floor. Registry personnel were used to cover shortages created by high nursing turnover and difficulty in attracting and training personnel. The District has since reduced the cost of registry by aggressively recruiting locally and from outside the District's immediate service area.

Other expenses increased 2.6 percent due to increases in depreciation, software costs, and insurance premiums. Depreciation costs rose as bond financed assets were placed into service. The District also incurred higher I.T. development costs with the implementation of a new information management system installed in the emergency room. Lastly, insurance costs increased, reflecting higher rates for malpractice coverage.

Non-operating revenue (expenses) consisting of tax revenues, investment income, and interest expense totaled approximately \$4,081,000 in fiscal year 2019 against approximately \$2,283,000 from fiscal year 2018. The increase in non-operating revenues is largely attributable to a significant gain in the value of the District's bond investment fund.

## Pioneers Memorial Healthcare District Management's Discussion and Analysis

### Required Financial Statements (continued)

The following table presents a summary of the District's revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017:

	Condensed Statement of Revenues, Expenses, and Changes in Net Position			
	2018	2017	Net Change	% Change
<b>OPERATING REVENUES:</b>				
Net patient service revenue	\$ 123,254	\$ 116,508	\$ 6,746	5.79 %
Other	3,244	1,269	1,975	155.63 %
	126,498	117,777	8,721	7.40 %
<b>OPERATING EXPENSES:</b>				
Salaries and wages	50,928	50,298	630	1.25 %
Medical and other supplies	20,163	18,892	1,271	6.73 %
Professional fees	14,487	12,770	1,717	13.45 %
Registry and contract labor	1,645	2,265	(620)	(27.37)%
Other operating expenses	37,280	36,915	365	0.99 %
	124,503	121,140	3,363	2.78 %
<b>OPERATING LOSS:</b>	1,995	(3,363)	5,358	(159.32)%
<b>NON-OPERATING REVENUES (Expenses):</b>				
District tax revenues	3,020	3,040	(20)	(0.66)%
Interest income	132	411	(279)	(67.88)%
Interest expense	(681)	(391)	(290)	74.17 %
Non-operating expenses	(287)	(253)	(34)	13.44 %
Contributions, net	99	96	3	3.13 %
	2,283	2,903	(620)	(21.36)%
<b>CHANGE IN NET POSITION</b>	4,278	(460)	4,738	(1030.00)%
<b>NET POSITION:</b>				
Beginning of year	45,268	45,728	(460)	(1.01)%
End of year	\$ 49,546	\$ 45,268	\$ 4,278	9.45 %

# Pioneers Memorial Healthcare District Management's Discussion and Analysis

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## Required Financial Statements (continued)

### Sources of Revenue

*Operating revenue* – In fiscal year 2018, the District derived 97.4 percent of its total operating revenue from patient care operations. Patient care operations include medically acute inpatient and outpatient care including physician care. The remaining portion of operating revenues includes funds from cafeteria receipts, rebates, refunds, and fees.

*Non-operating revenue* – In fiscal year 2018, the District derived 4.3 percent of its total revenue from investment income and property tax revenue. Investment revenues are derived from excess District funds invested in accordance with California Code 53600 under management by the Wealth Management Department of Rabobank. Property tax revenues are received from the county and used to service the District's outstanding debt (2004 and 2012 General Obligation Bonds) as well as cover the cost of providing indigent care.

### Operating and Financial Performance

The following summarizes the District's changes in patient volumes as well as changes in the statements of revenues, expenses, and changes in net position between the years ended June 30, 2019 and 2018.

### Patient Volumes

Between fiscal year 2018 and 2017, inpatient admissions decreased by 3.1 percent while inpatient days increased by 3.7 percent. The increase in the average length of stay, (patient days divided by admissions), is the result of a shift to higher acuity care from the continuing development of specialty care services such as: Urology, Interventional Radiology, and Neurology services.

The number of births decreased from 1,835 in fiscal year 2017 to 1,699 in fiscal year 2018 as some obstetricians began to split their practices between the District and a competitor. However, management believes that newly formed relationships with a Federally Qualified Health Center will restore the number of deliveries to previous levels. The number of C-Section deliveries was relatively stable between the two years with 556 in fiscal year 2017 and a slight increase to 573 in fiscal year 2018.

Hospital Outpatient visits, primarily for Laboratory, Imaging, and Surgical services increased an average of 7.1 percent due to the continuing demand for lower cost outpatient services. Emergency room volumes, however, declined by 1.1 percent as a result of expanded access to primary care offered through clinical services.

The District's Rural Health Center volumes increased substantially during fiscal year 2018. The Calexico Clinic's volumes increased 9.0 percent while the Pioneers Health Center volumes increased by 64.0 percent. In addition, during the fourth quarter, the District opened a third rural health center near the main campus designated to pediatric care. The combined total visits for the three clinics resulted in a 40.4 percent increase over the previous fiscal year.

## Pioneers Memorial Healthcare District Management's Discussion and Analysis

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### Required Financial Statements (continued)

#### Revenues

Operating revenues for fiscal year 2018 exceeded fiscal year 2017 revenues by approximately 7.4 percent, or approximately \$8,721,000. Higher revenues were the result of payer rate increases from Medi-Cal, Molina and Blue Shield, along with a higher Medicare case mix index (1.49 versus 1.43), significantly higher outpatient revenues, increased Medi-Cal reimbursement (due to longer patient stays) and better management of revenue cycle processes.

In total, inpatient net revenues increased by approximately \$2,083,000 due to a favorable adjustment to the State Medical base rate (\$466,000) and higher Medicare payments (\$896,000). In addition, longer patient stays for Medi-Cal Managed Care admissions, reimbursed on a per diem basis, added approximately \$721,000.

Significantly higher outpatient activity added approximately \$5,096,000 in outpatient net revenues with the rural health clinics contributing approximately \$3,256,000 of the total due to higher clinic visits.

Non-“fee for service” revenues in the form of Medi-Cal supplemental payments, including Public Hospital Redesign & Incentives of Medi-Cal Program (PRIME), increased by approximately \$622,000.

Lastly, an increased focus on revenue cycle management resulted in a reduction of payment denials (mostly from Medicare) by approximately \$1,601,000 over the previous year.

#### Operating Expenses

Salaries and wages increased by 1.3 percent or approximately \$630,000 as the District actively managed labor costs. Staffing productivity (labor efficiency) improved from 4.68 employees per occupied bed (EPOB) to 4.45 EPOB.

Medical and other supply costs increased 6.7 percent due to higher pharmacy costs necessary to support higher Oncology Clinic volumes. In addition, there was increased spending on specialized physician preference items such as specialized stents, catheters, and related equipment needed to support the Interventional Radiology program.

Professional fees increased 13.5 percent due to the addition of newly recruited physicians. The District added physician specialists in Urology, Neurology, and Interventional Radiology programs in late fiscal year 2017 who continued to build their practices in fiscal year 2018. Professional fee costs were also impacted by higher rural health clinic volumes as some physician payment contracts are tied to clinic volumes.

Contract labor costs decreased by 27.4 percent due to discontinued use of contract nursing personnel in Labor and Delivery and elsewhere in the District.

# Pioneers Memorial Healthcare District

## Management's Discussion and Analysis

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### Required Financial Statements (continued)

#### Budget Results (Fiscal Year Ending June 30, 2019)

The Board of Directors approves the annual operating budget of the District. The budget remains in effect the entire year, but is updated as needed for internal management's use to reflect changes in activity and approved variances. A June 30, 2019, budget comparison and analysis is presented below:

	Actual vs Budget Results			
	Actual	Budget	\$ Change	% Change
<b>OPERATING REVENUES:</b>				
Gross patient revenues	\$ 458,650	\$ 497,798	\$ (39,148)	(7.86)%
Deductions from revenues	(324,371)	(360,366)	35,995	9.99 %
Provision for bad debts	(12,946)	(12,166)	(780)	(6.41)%
Net patient revenue	121,333	125,266	(3,933)	(3.14)%
Other operating revenues	4,397	4,347	50	1.15 %
Total operating revenues	125,730	129,613	(3,883)	(3.00)%
<b>OPERATING EXPENSES</b>				
Salaries, benefits, contract labor	69,823	68,538	1,285	1.87 %
Medical and other supplies	21,053	21,075	(22)	(0.10)%
Depreciation and amortization	3,890	3,470	420	12.10 %
Other operating expenses	37,167	37,165	2	0.01 %
Total operating expenses	131,933	130,248	1,685	1.29 %
OPERATING INCOME (LOSS)	(6,203)	(635)	(5,568)	876.85 %
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
District tax revenues	3,117	3,052	65	2.13 %
Interest expense	(918)	(957)	39	(4.08)%
Other	1,882	230	1,652	718.26 %
Total non-operating	4,081	2,325	1,756	75.53 %
CHANGE IN NET POSITION	\$ (2,122)	\$ 1,690	\$ (3,812)	(225.56)%

# Pioneers Memorial Healthcare District Management's Discussion and Analysis

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## Budget Comments

In comparing actual versus budgeted fiscal year 2019 results, the following was noted:

### Overview

Financial operations for fiscal year 2019 resulted in an operating loss of approximately \$6,203,000 against a lower budgeted loss of approximately \$635,000, resulting in a negative to budget variance of approximately \$5,568,000 for the period. The unfavorable financial performance was largely the result of a 3.0 percent negative to budget decline in revenues combined with a negative to budget variance of 1.3 percent for operating expenses.

Non-operating revenues (expenses) were favorable to budget by \$1,756,000 due to better than expected performance of the District's investment accounts. For the fiscal year ending June 30, 2019, the District's operating and non-operating operations yielded a negative change in net position of approximately \$2,122,000 against a budgeted gain of approximately \$1,690,000.

### Revenues

Total operating revenues (net patient revenues and other operating revenues) fell short of budget by 3.0% percent primarily because inpatient admissions fell below budgeted expectations by 11.5 percent. Likewise, outpatient revenues were below budget by 4.8 percent due to lower than budgeted clinic and emergency room volumes. The more notable revenue variances were:

- Room charges were below budget by 10.1 percent due to the 11.5 percent decline in patient days.
- Inpatient ancillary charges for inpatient services fell 15.1 percent below budget because of significantly lower than budgeted inpatient volumes. The largest declines from budget were: for inpatient surgical services, Pharmacy and Diagnostic Imaging.
- Outpatient revenues were under budget by 4.8 percent. The areas most affected were the Emergency Room, Diagnostic Imaging, and the Cancer Infusion Clinic.

### Expenses

In total, operating expenses were approximately 1.3 percent over budget. Salaries, benefits, and contract labor exceeded budget by 1.9 percent due to the high utilization of contract labor as the nursing department struggled with turn-over and recruiting difficulties. Non-staffing expenses (i.e., supplies, professional fees, depreciation and other expenses) ended the year over budget by 0.6 percent. Notable expense variances were:

- Contract labor was over budget by \$2,477,000 or 223 percent.
- Salaries and wages (employed) were on budget.
- Depreciation expenses exceeded budget by 12.1 percent due to an adjustment to the amortization period of a leasehold improvement that significantly increased current period lease amortization expenses.

# **Pioneers Memorial Healthcare District Management's Discussion and Analysis**

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## **Economic Outlook**

The District's Board and Management considered many factors when setting the fiscal year 2020 budget. The 2020 Budget is a plan to transition the District from a high cost low volume operating environment to moderately higher volumes while emphasizing more control over costs. The District expects to achieve cost reductions in the area of contract labor, supplies, and other expenses, while adding new services with the expansion of the Calexico rural health clinic and the Cath Lab\Surgical suite. Both of the aforementioned additions will produce new revenues and were financed from the proceeds of the Series 2017 bonds. The District expects to improve its net position from a negative \$2,397,000 to a positive \$565,000.

Specific factors and assumptions incorporated into the District's fiscal year 2020 budget include:

- Inpatient admissions are projected to decrease moderately by approximately 1 percent as the pressure to minimize inpatient utilization continues.
- Emergency room volumes are expected to decline 2.5 percent and then stabilize. The reduction will have a negative impact upon revenues from departments that support Emergency Room operations such as: Clinical Lab and Imaging Diagnostics.
- Surgical volumes will continue to increase as the 5th surgery suite is placed into service, thus adding much needed surgical capacity.
- The Cardiac Cath lab is expected to begin operations mid-year and will add new revenues in Cardiology and Interventional radiology services.
- Supplemental payments (i.e., Disproportionate Share from the Medicare and MediCal programs) along with other state MediCal supplemental payments will continue to represent approximately 10 to 11 percent of net revenues.

## **Affiliation Agreement with Scripps Healthcare**

In October of 2015, The District and Scripps Health entered into a series of two-year affiliation agreements to share a common mission and to provide health services of the highest quality to the communities they serve. Since that date, the District and Scripps have collaborated on several projects to more efficiently manage costs and increase operating efficiency. Through its affiliation with Scripps, the District will continue to refine work flows and enhance operational efficiencies, with particular interest in supply cost reductions.

## Pioneers Memorial Healthcare District Management's Discussion and Analysis

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### **PRIME Project (Public Hospital Redesign & Incentives of Medi-Cal Program)**

In June 2016, the District was approved to participate in the PRIME program by the Department of Healthcare Services. The Prime program is designed to build upon the foundational delivery system transformation work that was achieved through the prior California Section 1115 Bridge to Reform. Activities supported by the project are designed to accelerate efforts by participating entities to change care delivery to maximize health care value and strengthen their ability to successfully perform under risk-based alternative payment models (APMs) consistent with CMS and Medi-Cal 2020 goals. The PRIME program will extend over a period of five years and is funded through a federal matching program (Inter Governmental Transfers). When completed, the program will have added approximately \$15.0 M to the District over the project's five-year life.

As of June 30, 2019, the District has successfully completed four years of the program (i.e., DY 2011 through 2014) which has involved the selection of performance metrics and the accumulation of data to measure performance against.

The PRIME program is schedule to conclude with the final fiscal year ending June 30, 2020. Although the Department of Healthcare Services ("DHCS") has yet to fully disclose a successor program, it has announced the continuation of a similar PRIME initiative labeled the Quality Improvement Program ("QIP"). The program is scheduled to begin in fiscal year 2021; however, unlike PRIME, funding for the program is to be delayed until fiscal year 2023.

## **Report of Independent Auditors**

To the Board of Directors  
Pioneers Memorial Healthcare District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pioneers Memorial Healthcare District (the "District"), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express 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 of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pioneers Memorial Healthcare District as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Moss Adams LLP*

Irvine, California  
November 27, 2019

**Pioneers Memorial Healthcare District**  
**Statements of Net Position**

<b>ASSETS</b>	June 30,	
	2019	2018
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	8,143,730	\$ 11,101,860
Investments	18,149,588	16,765,595
Patient accounts receivable, net of allowances for doubtful accounts of \$5,140,162 in 2019 and \$5,164,544 in 2018	11,563,781	9,962,750
Other receivables	6,654,584	5,729,508
Inventories	2,580,219	2,521,874
Estimated third-party payor settlements	2,092,002	314,826
Prepaid expenses and deposits	2,302,527	2,153,541
Total current assets	51,486,431	48,549,954
<b>RESTRICTED CASH AND INVESTMENTS</b>		
Held by trustee for capital expenditures	2,045,041	9,270,161
Held by trustee for debt service and other	2,105,598	2,206,256
	4,150,639	11,476,417
<b>PHYSICIAN ADVANCES, net of allowance</b>	788,463	973,444
<b>CAPITAL ASSETS, net of accumulated depreciation</b>	34,432,019	30,535,565
Total assets	\$ 90,857,552	\$ 91,535,380
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 1,855,000	\$ 1,568,336
Accounts payable and accrued expenses	12,565,367	9,434,313
Accrued payroll and related liabilities	6,252,791	6,109,617
Employee healthcare self-insurance reserve	813,213	960,551
Total current liabilities	21,486,371	18,072,817
<b>LONG-TERM DEBT, net of current maturities</b>	21,947,329	23,916,599
Total liabilities	43,433,700	41,989,416
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	12,674,731	14,320,791
Restricted, expendable for debt service and other purposes	2,105,598	2,206,256
Unrestricted	32,643,523	33,018,917
Total net position	47,423,852	49,545,964
Total liabilities and net position	\$ 90,857,552	\$ 91,535,380

**Pioneers Memorial Healthcare District**  
**Statements of Revenues, Expenses, and Changes in Net Position**

	Years Ended June 30,	
	2019	2018
<b>OPERATING REVENUES</b>		
Net patient service revenue (net of provision for bad debts of \$12,946,298 in 2019 and \$12,854,926 in 2018)	\$ 121,333,761	\$ 123,253,552
Other	4,396,515	3,244,339
Total operating revenues	<u>125,730,276</u>	<u>126,497,891</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	53,570,158	50,928,288
Supplies	21,052,835	20,163,332
Professional fees	15,441,469	14,487,038
Employee benefits	14,486,610	14,314,963
Purchased services	6,577,724	7,167,317
Repairs and maintenance	5,206,518	4,938,554
Depreciation and amortization	3,889,865	3,610,484
Registry and contract labor	3,604,989	1,630,328
Building and equipment rent	1,765,824	1,645,166
Insurance	1,666,102	1,393,623
Utilities	1,452,533	1,389,646
Other operating expenses	3,219,127	2,834,352
Total operating expenses	<u>131,933,754</u>	<u>124,503,091</u>
OPERATING (LOSS) INCOME	<u>(6,203,478)</u>	<u>1,994,800</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
District tax revenues	3,116,580	3,019,504
Investment income	1,019,359	132,344
Interest expense	(918,015)	(681,051)
Contributions, net	8,124	98,874
Other non-operating revenues (expenses)	855,318	(286,803)
Total non-operating revenues (expenses), net	<u>4,081,366</u>	<u>2,282,868</u>
CHANGE IN NET POSITION	(2,122,112)	4,277,668
<b>NET POSITION</b>		
Beginning of year	<u>49,545,964</u>	<u>45,268,296</u>
End of year	<u>\$ 47,423,852</u>	<u>\$ 49,545,964</u>

## Pioneers Memorial Healthcare District Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third parties on behalf of patients	\$ 116,932,505	\$ 131,251,213
Cash received from operations, other than patient services	4,494,488	1,066,389
Cash payments to employees and benefit programs	(68,060,932)	(64,909,443)
Cash payments to suppliers and contractors	(56,875,926)	(62,613,913)
Net cash (used in) provided by operating activities	<u>(3,509,865)</u>	<u>4,794,246</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Receipt of District taxes	<u>1,248,677</u>	<u>1,144,067</u>
Net cash provided by non-capital financing activities	<u>1,248,677</u>	<u>1,144,067</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipt of District taxes related to debt service	1,867,903	1,875,437
Capital grants and contributions, net	8,124	98,874
Purchase of capital assets, net of disposals	(7,788,810)	(6,988,781)
Interest payments on long-term debt	(918,015)	(681,051)
Principal payments on long-term debt	(1,682,606)	(1,983,431)
Proceeds from issuance of long-term debt, including premium	<u>-</u>	<u>16,255,551</u>
Net cash (used in) provided by capital and related financing activities	<u>(8,513,404)</u>	<u>8,576,599</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends received from investments	1,019,359	132,344
Non-operating revenues (expenses)	855,318	(286,803)
Purchase of investments	(15,031,751)	(50,634,794)
Proceeds from sale of investments	20,872,878	44,609,086
Change in restricted cash	<u>100,658</u>	<u>(423,205)</u>
Net cash provided by (used in) investing activities	<u>7,816,462</u>	<u>(6,603,372)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(2,958,130)</u>	<u>7,911,540</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>11,101,860</u>	<u>3,190,320</u>
End of year	<u><u>\$ 8,143,730</u></u>	<u><u>\$ 11,101,860</u></u>

## Pioneers Memorial Healthcare District Statements of Cash Flows (continued)

	Years Ended June 30,	
	2019	2018
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Operating (loss) income	\$ (6,203,478)	\$ 1,994,800
Adjustments to reconcile operating (loss) income net cash used in operating activities:		
Depreciation and amortization	3,889,865	3,610,484
Loss on disposal of equipment	2,491	115,965
Provision for bad debt	12,946,298	12,854,926
Changes in operating assets and liabilities:		
Patient accounts receivables	(14,547,329)	(14,909,687)
Other receivables	(925,076)	7,286,388
Inventories	(58,345)	(420,509)
Estimated third-party payor settlements	(1,777,176)	588,084
Prepaid expenses and deposits	(148,986)	434,615
Physician advances	184,981	(812,017)
Accounts payable and accrued expenses	3,131,054	(6,282,611)
Accrued payroll and related liabilities	143,174	145,443
Employee healthcare self-insurance reserve	(147,338)	188,365
Net cash (used in) provided by operating activities	<u>\$ (3,509,865)</u>	<u>\$ 4,794,246</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures included in accounts payable	<u>\$ -</u>	<u>\$ 1,511,082</u>

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

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#### Note 1 – Basis of Presentation and Accounting Policies

A summary of significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

**Reporting entity** – Pioneers Memorial 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. The District is governed by a five-member Board of Directors elected from within the healthcare district to specified terms of office. The District is located in Brawley, California and operates a 107-bed acute care facility and rural health clinics. The District provides healthcare services primarily to individuals who reside in the local geographic area.

**Fiscal year** – The District has adopted a fiscal year ending June 30. All references to years herein refer to the respective fiscal year.

**Basis of presentation** – The financial statements have been prepared in accordance with the applicable provisions of the American Institute of Certified Public Accountants’ Audit and Accounting Guide, *Health Care Organizations*, pronouncements of the Governmental Accounting Standards Board (GASB), and the State Controller’s *Minimum Audit Requirements* and Reporting Guidelines. The District uses proprietary (enterprise) fund accounting prepared on the accrual basis of accounting, whereby revenues are recognized on the accrual when earned and expenses are recognized when incurred.

**Use of estimates** – The preparation of the 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, 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 could differ from those estimates.

**Net patient service revenue and patient accounts receivable** – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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. The District estimates net collectible accounts receivable and the corresponding impact on net patient services revenue by applying historical collection realization percentages to outstanding gross accounts receivable by payor class.

**Supplemental funding** – Supplemental funding revenue is reported at the estimated net realizable amounts from the various supplemental funding programs. 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.

The District renders service to patients under contractual arrangements with the Medicare and Medi-Cal programs as described in Note 2.

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

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#### Note 1 – Basis of Presentation and Accounting Policies (continued)

**Charity care and community benefits** – The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The District accepts all patients regardless of their ability to pay. Partial payments to which the District is entitled from public assistance programs on behalf of patients that meet the District's charity care criteria are reported as patient service revenue. Charity care, which is excluded from recognition as patient accounts receivables or net patient service revenue in the accompanying financial statements, measured on the basis of uncompensated charges, was approximately \$519,000 and \$453,000 for the years ended June 30, 2019 and 2018, respectively.

**District tax revenues** – The District receives approximately 3 percent of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue since the revenue is not directly linked to patient care. Property taxes are levied by 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. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

**Grants and contributions** – From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from its related foundation and auxiliary organizations, as well as from other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statements of revenues, expenses, and changes in net position.

**Cash and cash equivalents** – Cash and cash equivalents include cash in checking and savings bank accounts. The District defines cash equivalents as highly liquid debt instruments with original maturities of three months or less, and are intended for use in daily operations.

**Investments** – Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. All investments are stated at their fair value; the District has elected not to report certain investments at amortized cost.

**Inventories** – Inventories are reported at cost (determined by the first-in, first-out method), which is not in excess of market value.

## Pioneers Memorial Healthcare District Notes to Financial Statements

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### Note 1 – Basis of Presentation and Accounting Policies (continued)

**Restricted cash and investments** – Restricted cash as of June 30, 2019 and 2018, was comprised of the following:

	2019	2018
Restricted for debt service	\$ 2,064,764	\$ 2,156,858
Restricted for capital expenditures	2,045,041	9,270,161
Other	40,834	49,398
	\$ 4,150,639	\$ 11,476,417

Restricted cash and investments represents assets held by bond trustees and in escrow accounts for debt service and as deposits. Amounts required to pay for current liabilities are classified as current assets. See Note 5.

**Capital assets** – Property and equipment are recorded at cost or, in the case of donated items, at fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. The District capitalizes interest cost net of any interest earned on temporary investments of the proceeds for construction projects funded by tax-exempt borrowings. Interest expense is also capitalized for projects financed with operating funds.

Depreciation expense and amortization of property under capital leases are combined in the statements of revenues, expenses, and changes in net position and are computed using the straight-line method for financial reporting purposes over the estimated useful lives of the assets or the life of the lease, whichever is less, which range from 10 to 30 years for buildings and improvements and 3 to 10 years for equipment and leasehold improvements.

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may 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 dependent upon 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.

**Statements of revenues, expenses, and changes in net position** – All revenues and expenses directly related to the delivery of healthcare services are included in operating revenues and expenses in the statements of revenues, expenses, and changes in net position. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or investment income.

# Pioneers Memorial Healthcare District

## Notes to Financial Statements

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### Note 1 – Basis of Presentation and Accounting Policies (continued)

**Net position** – Net position of the District is classified in three components.

- “Invested in capital assets, net of related debt” consists of capital assets, net of accumulated depreciation, and reduced by the balance of any outstanding borrowing used to finance the purchase or construction of those assets.
- “Restricted, expendable for debt services and other purposes” net position is non-capital net position that must be used for a particular purpose, as specified by 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.

**Compensated absences** – The District’s employees earn vacation days at varying rates depending on years of service. Vacation time accumulates from year to year up to a specific maximum. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specific maximum. Employees are not paid for accumulated sick leave upon termination.

**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 other than medical insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for medical and dental benefits. Annual estimated provisions are accrued based on actuarially determined amounts or management’s estimate and includes an estimate of the ultimate costs of both reported claims and claims incurred but not yet reported.

**Recent accounting pronouncements** – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The principal objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. This guidance is effective for the District in the year ended June 30, 2020.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This guidance is effective for the District in the year ended June 30, 2020.

## Pioneers Memorial Healthcare District Notes to Financial Statements

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### Note 1 – Basis of Presentation and Accounting Policies (continued)

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This guidance is effective for the District in the year ended June 30, 2021.

**Reclassifications** – The Company has reclassified certain accounts in the comparative financial statements footnotes as it enhances the comparability and presents a more relevant comparison of the financial statements. There was no effect on previously reported net position or net loss.

### Note 2 – Net Patient Service Revenue, Patient Accounts Receivable, and Third-Party Reimbursement Programs

**Net patient service revenue and patient accounts receivable** – The District has arrangements with third-party payers that provide for payments to the District. Significant concentrations of gross patient accounts receivable as of June 30 were as follows:

	2019	2018
Medicare	\$ 17,866,284	\$ 17,391,408
Medi-Cal and Medi-Cal pending	28,557,727	24,208,348
Other third-party payors	14,552,252	15,337,119
Self-pay and other	5,474,242	5,330,393
Other government programs	44,986	160,633
Contractual allowances	(49,791,548)	(47,300,607)
Patient accounts receivable	16,703,943	15,127,294
Less allowances for doubtful accounts	(5,140,162)	(5,164,544)
Net patient accounts receivable	\$ 11,563,781	\$ 9,962,750

Significant concentrations of gross patient accounts receivable as of June 30, 2019 and 2018, include Medicare, 27 and 28 percent respectively; Medi-Cal, 43 percent and 39 percent, respectively; and other third-party payors, 22 percent and 25 percent, respectively.

Amounts written off to bad-debt expense included in net patient service revenue totaled approximately \$12,946,000 and \$12,855,000 for the years ended June 30, 2019 and 2018, respectively.

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

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#### **Note 2 – Net Patient Service Revenue, Patient Accounts Receivable, and Third-Party Reimbursement Programs (continued)**

A summary of the basis of reimbursement with major third-party payor categories follows:

**Medicare** – Medicare payments for inpatient and outpatient services to Medicare patients are based on prospectively determined rates which vary according to the patient diagnostic classification systems. For services rendered to these Medicare inpatients, the District is paid bi-weekly periodic interim payments (PIP), with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

**Medi-Cal** – Senate Bill 853 added section 14105.28 to the Welfare and Institution Code. This section mandated the design and implementation of a new payment methodology for hospital inpatient services provided to Medi-Cal beneficiaries based upon Diagnosis Related Groups (DRGs). The DRG case-based reimbursement methodology replaced the previous per diem payment method for all private hospitals with admissions on or after July 1, 2013, and for non-designated public hospitals with admissions on or after January 1, 2014. A per diem reimbursement methodology is still used for rehabilitative services and behavioral health services.

**Contracted and other** – The District has entered into reimbursement agreements with certain commercial insurance carriers, preferred provider organizations, and health maintenance organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively-determined per-diem rates.

The programs' administrative procedures preclude final determination of amounts due for services to program patients until after the cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. Medicare cost reports for 2016 through 2018 and Medi-Cal cost reports for 2014 and 2015 are subject to audit and possible adjustment.

Laws and regulations governing Medicare and Medi-Cal programs are 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. Normal estimation differences between subsequent cash collections on patient accounts receivable and cost report settlements and amounts estimated in the prior year are reported as adjustments to net patient service revenue in the current period. For the years ended June 30, 2019 and 2018, net patient service revenue increased approximately \$4,143,000 and \$1,618,000, respectively, related to these changes in estimates.

The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

## Pioneers Memorial Healthcare District Notes to Financial Statements

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### Note 2 – Net Patient Service Revenue, Patient Accounts Receivable, and Third-Party Reimbursement Programs (continued)

#### Supplemental Funding

*Public Hospital Redesign and Incentives in Medi-Cal Program (PRIME or the “Program”)* – The Program was approved via the California Section 1115(a) demonstration waiver titled “California’s Medi-Cal 2020 Demonstration”. The Program intends to close the gap by incentivizing hospitals to identify critical objectives to improve delivery of care for Medi-Cal beneficiaries. The Program is effective beginning January 1, 2016, and is a five-year program. The Program has both reporting metrics as well as performance metrics.

*Medi-Cal Managed Care Rate Range Intergovernmental Transfer (IGT)* – The Affordable Care Act (ACA) recognized the formation and maintenance of a network of primary care providers to service Medi-Cal Managed Care plans which require funding assistance. IGT is a payment methodology to partially fund the gap between what Medi-Cal Managed Care plans pay and the full cost of providing the service.

*Senate Bill 239 Quality Assurance Fee (QAF) Supplemental Payment and QAF Managed Care Funds* – A state-legislated supplemental program that distributes funds to hospitals based on the volume of care for Medi-Cal funded patients. The intention is to strengthen the ability of hospitals to meet the increased demand resulting from implementing programs, service, and capital required by ACA. The District also receives net supplemental funding under a managed care methodology.

*Senate Bill 1100 Medicaid Disproportionate Share Hospital Program* – The Disproportionate Share Hospital (DSH) Program is a Medi-Cal supplemental payment program. It was established to reimburse hospitals for some of the uncompensated care costs associated with furnishing inpatient hospital services to Medi-Cal beneficiaries and uninsured individuals. There is no application process to become a DSH hospital. Instead, DSH eligibility is determined annually by the Department of Health Care Services using the established Medicaid Utilization Rate (MUR) and Low-Income Utilization Rate (LIUR) formulas. The MUR calculates the ratio of Medi-Cal days to the total patient days. The LIUR calculates the ratio of Medicaid/Medi-Cal revenue to the total paid patient revenue. To be eligible the hospital must have a LIUR in excess of 25 percent with a MUR of at least one percent, or a MUR of at least one standard deviation above the statewide mean. DSH payments are calculated for eligible hospitals and are disbursed in cycles throughout the state’s fiscal year. An amount totaling eleven twelfths of the estimated annual total is disbursed during the applicable state fiscal year. The remaining amount is disbursed upon finalization of the annual total.

With respect to the above-described programs, revenue is recognized when management is reasonably assured all information necessary to determine the amount of revenue is available and has been considered in estimating the amount of revenue to be recognized.

Other receivables of approximately \$6,655,000 and \$5,730,000 as of June 30, 2019 and 2018, respectively, were comprised of receivables related to the District’s participation in the PRIME program, payments received via IGT, QAF payments, and the Medi-Cal DSH program.

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

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#### Note 2 – Net Patient Service Revenue, Patient Accounts Receivable, and Third-Party Reimbursement Programs (continued)

The following table summarizes amounts recognized as revenue (included in net patient service revenue and other revenue, respectively), from the various state supplemental funding programs and transfer agreements available to the District:

	For the Year Ended June 30,	
	2019	2018
PRIME	\$ 3,318,923	\$ 2,000,000
Managed Care Rate Range IGT	4,291,444	2,484,986
NDPH-IGT AB-113	1,466,218	1,865,481
QAF Supplemental Payment and QAF Managed Care Funds	1,856,185	3,797,189
Medi-Cal DSH Program	3,066,930	3,695,535
	<u>\$ 13,999,700</u>	<u>\$ 13,843,191</u>
Totals		

#### Note 3 – Deposits, Investments, and Investment Income

The California State Treasurer's Office makes available the Local Agency Investment Fund ("LAIF") through which local governments may pool investments. Each governmental entity may invest up to \$40 million in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The District is a voluntary participant in the LAIF. The fair value of the District's investments in the LAIF is reported in the accompanying financial statements based on the District's pro rata share of the fair value provided by the LAIF for the entire LAIF portfolio. As of June 30, 2019 and 2018, the District held approximately \$60,000 and \$59,000 in LAIF, respectively.

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed-income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates.

**Credit risk** – Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. The District invests primarily in obligations of the U.S. government.

## Pioneers Memorial Healthcare District Notes to Financial Statements

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### Note 3 – Deposits, Investments, and Investment Income (continued)

**Concentration of credit risk** – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the District to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as LAIF, are not considered subject to concentration of credit risk. In accordance with state law, no more than 5 percent of total investments may be invested in the securities of any one issuer, except obligations of the U.S. government; no more than 10 percent may be invested in any one mutual fund; and no more than 30 percent may be invested in bankers' acceptances of any one commercial bank.

**Custodial credit risk – deposits** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2019 and 2018, the District had deposits invested in various financial institutions consisting of cash and cash equivalents, and restricted cash, which amounted to approximately \$8,590,000 and \$11,745,000, respectively.

Funds held by financial institutions are collateralized in accordance with the California Government Code (CGC), except for the federally insured amounts per account. 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 hospital 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.

**Custodial credit risk – investments** – Investments in any one issuer (other than U.S. Treasury securities and external investment pools) that represent 5 percent or more of the total investments as of June 30, 2019 and 2018, are as follows:

Investment Type	2019		2018	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
U.S. Government Bonds	10,672,865	49%	11,333,953	41%
Corporate Bonds	5,846,881	27%	4,011,537	14%
Money market mutual funds	3,681,657	17%	11,328,481	41%
Municipal Bonds	1,550,874	7%	-	0%

**Interest rate risk** – Interest rate risk is the risk that the value of fixed-income securities will decline due to increasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the District's investment policy, as per statutory requirements, limits the term of any investment to a maturity not exceeding five years.

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

#### Note 3 – Deposits, Investments, and Investment Income (continued)

The District had investments by type and maturity as follows:

Investment Type	June 30, 2019		
	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
Money market mutual funds	\$ 1,636,616	\$ 1,636,616	\$ -
Local Agency Investment fund	59,921	59,921	-
Zero Coupon Bonds	-	-	-
U.S. Government Bonds	9,675,653	-	9,675,653
Municipal Bonds	1,550,874	849,120	701,754
Corporate Bonds	5,846,881	-	5,846,881
Held by Trustee:			
Money market mutual funds	2,045,041	2,045,041	-
U.S. Government Bonds	997,212	997,212	-
	<u>\$ 21,812,198</u>	<u>\$ 5,587,910</u>	<u>\$ 16,224,288</u>

  

Investment Type	June 30, 2018		
	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
Money market mutual funds	\$ 2,058,320	\$ 2,058,320	\$ -
Local Agency Investment fund	58,592	58,592	-
Zero Coupon Bonds	295,218	295,218	-
U.S. Government Bonds	10,366,685	195,164	10,171,521
Municipal Bonds	689,697	-	689,697
Corporate Bonds	4,011,537	-	4,011,537
Held by Trustee:			
Money market mutual funds	9,270,161	9,270,161	-
U.S. Government Bonds	967,268	967,268	-
	<u>\$ 27,717,478</u>	<u>\$ 12,844,723</u>	<u>\$ 14,872,755</u>

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk.

In addition to defining fair value, this guidance expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which are determined by the lowest level input that is significant to the fair value measurement in its entirety.

## Pioneers Memorial Healthcare District Notes to Financial Statements

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### Note 3 – Deposits, Investments, and Investment Income (continued)

These levels are:

**Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.

**Level 2** – Pricing inputs are based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swap instruments.

**Level 3** – Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates.

The following table summarizes the District's investments measured at fair value on a recurring basis:

Investments	Fair Market Value as of June 30, 2019			
	Total	Level 1	Level 2	Level 3
Money market mutual funds	\$ 1,636,616	\$ 1,636,616	\$ -	\$ -
Local Agency Investment fund	59,921	-	59,921	-
U.S. Government Bonds	9,675,653	-	9,675,653	-
Municipal Bonds	1,550,874	-	1,550,874	-
Corporate Bonds	5,846,881	-	5,846,881	-
Held by Trustee:				
Money market mutual funds	2,045,041	2,045,041	-	-
U.S. Government Bonds	997,212	-	997,212	-
	<u>\$ 21,812,198</u>	<u>\$ 3,681,657</u>	<u>\$ 18,130,541</u>	<u>\$ -</u>

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

#### Note 3 – Deposits, Investments, and Investment Income (continued)

Investments	Fair Market Value as of June 30, 2018			
	Total	Level 1	Level 2	Level 3
Money market mutual funds	\$ 2,058,320	\$ 2,058,320	\$ -	\$ -
Local Agency Investment fund	58,592	-	58,592	-
U.S. Government Bonds	10,366,685	-	10,366,685	-
Municipal Bonds	689,697	-	689,697	-
Corporate Bonds	4,011,537	-	4,011,537	-
Zero Coupon Bonds - Tax Exempt	295,218	-	295,218	-
Held by Trustee:				
Money market mutual funds	9,270,161	9,270,161	-	-
U.S. Government Bonds	967,268	-	967,268	-
	<u>\$ 27,717,478</u>	<u>\$ 11,328,481</u>	<u>\$ 16,388,997</u>	<u>\$ -</u>

#### Note 4 – Capital Assets

A summary of changes in the District's capital assets is as follows:

	Balance as of June 30, 2018	Additions	Retirements	Transfers	Balance as of June 30, 2019
Land and land improvements	\$ 2,528,894	\$ -	\$ -	\$ -	\$ 2,528,894
Buildings and improvements	47,838,401	-	-	1,762,555	49,600,956
Equipment	51,685,124	1,684,720	(361,472)	1,836,150	54,844,522
Construction in progress	6,531,606	6,104,090	-	(3,598,705)	9,036,991
Totals at historical cost	<u>108,584,025</u>	<u>7,788,810</u>	<u>(361,472)</u>	<u>-</u>	<u>116,011,363</u>
Less accumulated depreciation for:					
Land and land improvements	(360,232)	(33,353)	-	-	(393,585)
Buildings and improvements	(36,568,866)	(1,056,404)	-	-	(37,625,270)
Equipment	<u>(41,119,362)</u>	<u>(2,800,108)</u>	<u>358,981</u>	<u>-</u>	<u>(43,560,489)</u>
Total accumulated depreciation	<u>(78,048,460)</u>	<u>(3,889,865)</u>	<u>358,981</u>	<u>-</u>	<u>(81,579,344)</u>
Capital assets, net	<u>\$ 30,535,565</u>	<u>\$ 3,898,945</u>	<u>\$ (2,491)</u>	<u>\$ -</u>	<u>\$ 34,432,019</u>

**Pioneers Memorial Healthcare District**  
**Notes to Financial Statements**

**Note 4 – Capital Assets (continued)**

	Balance as of June 30, 2017	Additions	Retirements	Transfers	Balance as of June 30, 2018
Land and land improvements	\$ 2,553,105	\$ -	\$ (103,621)	\$ 79,410	\$ 2,528,894
Buildings and improvements	45,886,512	-	-	1,951,889	47,838,401
Equipment	47,317,815	1,491,780	(164,166)	3,039,695	51,685,124
Construction in progress	4,593,797	7,008,803	-	(5,070,994)	6,531,606
<b>Totals at historical cost</b>	<b>100,351,229</b>	<b>8,500,583</b>	<b>(267,787)</b>	<b>-</b>	<b>108,584,025</b>
Less accumulated depreciation for:					
Land and land improvements	(326,878)	(33,354)	-	-	(360,232)
Buildings and improvements	(35,511,491)	(1,057,375)	-	-	(36,568,866)
Equipment	(38,751,429)	(2,519,755)	151,822	-	(41,119,362)
<b>Total accumulated depreciation</b>	<b>(74,589,798)</b>	<b>(3,610,484)</b>	<b>151,822</b>	<b>-</b>	<b>(78,048,460)</b>
<b>Capital assets, net</b>	<b>\$ 25,761,431</b>	<b>\$ 4,890,099</b>	<b>\$ (115,965)</b>	<b>\$ -</b>	<b>\$ 30,535,565</b>

**Note 5 – Long-Term Debt**

A summary of changes in debt for the District is as follows:

Energy efficiency loan	33,336	-	(33,336)	-	-
Unamortized bond premium related to 2017 Bonds	693,845	-	(35,975)	657,870	-
Unamortized bond premium related to 2012 Bonds	332,754	-	(78,295)	254,459	-
	<b>\$ 25,484,935</b>	<b>\$ -</b>	<b>\$ (1,682,606)</b>	<b>\$ 23,802,329</b>	<b>\$ 1,855,000</b>
	Balance at June 30, 2017	Additions	Payments	Balance at June 30, 2018	Due Within 1 Year
2017 Bonds	\$ -	\$ 15,640,000	\$ -	\$ 15,640,000	\$ -
2012 Bonds	8,685,000	-	(1,310,000)	7,375,000	1,360,000
2004 Bonds	1,580,000	-	(170,000)	1,410,000	175,000
Master lease/purchase agreement	308,965	-	(308,965)	-	-
Energy efficiency loan	227,802	-	(194,466)	33,336	33,336
Unamortized bond premium related to 2017 Bonds	-	714,690	(20,845)	693,845	-
Unamortized bond premium related to 2012 Bonds	411,048	-	(78,294)	332,754	-
	<b>\$ 11,212,815</b>	<b>\$ 16,354,690</b>	<b>\$ (2,082,570)</b>	<b>\$ 25,484,935</b>	<b>\$ 1,568,336</b>

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

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#### Note 5 – Long-Term Debt (continued)

**General obligation and revenue bonds** – On December 14, 2017, the District issued \$16,354,690 of Pioneers Memorial Healthcare District Revenue Bonds Series 2017 (the “2017 Bonds”). The 2017 Bonds bear interest at rates between 3 to 4 percent, with interest payments due semi-annually. Principal payments are due in annual amounts ranging from \$255,000 on October 1, 2019, to \$945,000 on October 1, 2047. The 2017 Bonds are collateralized by district revenues. The 2017 Bonds will mature on October 1, 2047. Costs of issuance totaling \$813,277 were expensed as incurred during the year ended June 30, 2018, and is recorded in interest expense in the statement of revenues, expenses, and changes in net position. The 2017 Bonds were issued at a premium totaling \$714,690 which is being amortized over the life of the 2017 Bonds.

On September 26, 2012, the District refinanced the 1998 General Obligation Bonds with the Pioneers Memorial Healthcare District 2012 General Obligation Refunding Bonds (the “2012 Bonds”). The refunding was for \$13,465,000 and bears interest at rates between 3 to 4 percent, with interest payments due semi-annually. Principal payments are due in annual amounts ranging from \$1,135,000 on October 1, 2013, to \$1,600,000 on October 1, 2022. The 2012 Bonds are collateralized by property tax revenues. The 2012 Bonds will mature on October 1, 2022. The refunding was accounted for as a defeasance of debt in accordance with GASB Statement No. 23 (*Advance Refundings Resulting in Defeasance of Debt*) and is amortized over the life of the 2012 Bonds. The 2012 Bonds were issued at a premium totaling \$782,950 which is being amortized over the life of the 2012 Bonds.

On July 1, 2004, the District refinanced the 1994 General Obligation Bonds with the Pioneers Memorial Healthcare District 2004 General Obligation Refunding Bonds (the “2004 Bonds”). The refunding was for \$3,085,000 and bears interest at rates which vary from 4 to 5 percent with interest payments due semi-annually. Principal payments are due in annual amounts ranging from \$70,000 on October 1, 2005, to \$230,000 on October 1, 2024. The bonds are collateralized by property tax revenues. The 2004 Bonds will mature on October 1, 2024.

Effective July 1, 2000, the District exercised its authority to levy a special district property tax assessment to be used to meet debt-service obligations for both the Series 2004 and Series 2012 General Obligation Bonds. Taxes are collected by the County of Imperial and are used to meet the debt-service obligations as they become due and payable to the bondholders. The total debt-service obligation paid by Imperial County on behalf of the District, on both the Series 2004 and the Series 2012 bonds, amounted to \$1,412,000 and \$1,400,000 for the years ended June 30, 2019 and 2018, respectively. These amounts, as well as County fees to administer the debt, have been recognized as income by the District for the respective fiscal year ends. The County of Imperial has accumulated additional tax collections under this arrangement in the amount of approximately \$456,000 and \$475,000 as of June 30, 2019 and 2018, respectively. These amounts have been recorded as deferred property tax revenues and are included in accounts payable and accrued expenses for each respective year.

**Pioneers Memorial Healthcare District**  
**Notes to Financial Statements**

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**Note 5 – Long-Term Debt (continued)**

Future debt service for aggregated debt borrowings for the next five years and thereafter are as follows:p

Years Ending June 30,		
2020	\$	1,819,265
2021		1,894,265
2022		1,964,265
2023		2,064,265
2024		667,940
2025-2029		2,000,000
2030-2034		2,270,000
2035-2039		2,925,000
2040-2044		3,715,000
2045-2047		<u>3,570,000</u>
		22,890,000
Unamortized premium on bonds		<u>912,329</u>
		<u>\$ 23,802,329</u>

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Premium</u>
2020	\$ 1,819,265	\$ 976,887	\$ 114,030
2021	1,894,265	902,427	114,030
2022	1,964,265	822,265	114,030
2023	2,064,265	735,695	55,309
2024	667,940	678,175	35,735
2025-2029	2,000,000	3,061,000	178,675
2030-2034	2,270,000	2,552,750	178,675
2035-2039	2,925,000	1,907,125	121,845
2040-2044	3,715,000	1,112,150	-
2045-2047	<u>3,570,000</u>	<u>126,336</u>	<u>-</u>
	<u>\$ 22,890,000</u>	<u>\$ 12,874,810</u>	<u>\$ 912,329</u>

The District incurred approximately \$918,000 and \$681,000 in interest during the years ended June 30, 2019 and 2018, respectively, on all debt including general obligation bonds. The District recognized approximately \$114,000 and \$99,000 of amortization related to the bond premium during the years ended June 30, 2019 and 2018, respectively.

## Pioneers Memorial Healthcare District

### Notes to Financial Statements

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#### Note 6 – Retirement Plans

The District has a defined-contribution plan under Section 401(a) of the Internal Revenue Code (IRC). The plan provides for prior non-elective employer contributions and on-going matching contributions for deferrals made under the Pioneers Memorial Healthcare District 457 Plan. The District provides on-going matching contributions of up to 5.5 percent of the participant's eligible compensation, based on years of service and subject to certain vesting restrictions. Covered employees who have met the applicable age and/or service requirements may also make rollover contributions. In the years ended June 30, 2019 and 2018, the District's expense to fund its share of the 401(a) plan was approximately \$1,379,000 and \$1,320,000, respectively.

The District also offers its employees a deferred-compensation plan under Section 457(b) of the IRC. Eligible employees who elect to participate in the plan make contributions through a reduction in salary and are allowed to choose among various investment alternatives offered by a funding agency selected by the District. The current funding agency is Mass Mutual. The investments of the 457(b) plan and earnings thereon are held by fiduciaries for the benefit of the employees. Accordingly, the plan assets and liabilities to the participants are excluded from the District's financial statements.

#### Note 7 – Commitments and Contingencies

**Operating leases** – The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2019 and 2018, was approximately \$1,765,000 and \$1,626,000, respectively.

Future minimum lease payments for the succeeding years under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year are as follows:

Years Ending June 30,	
2020	\$ 1,456,440
2021	1,386,150
2022	1,386,150
2023	1,010,809
2024	1,010,809
Thereafter	<u>7,049,415</u>
	<u>\$ 13,299,773</u>

**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, 2019, will be resolved without material adverse effect on the District's future financial position, results of operations, or cash flows.

## Pioneers Memorial Healthcare District Notes to Financial Statements

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### Note 7 – Commitments and Contingencies (continued)

**Employee health insurance** – The District provides health benefits to employees through a self-funded plan financed by District operations. Estimated liabilities are recorded for claims which most likely have been incurred but are not yet reported (“IBNR”) for claims processing and payment based on estimates that incorporate the District’s past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The District’s accrued health insurance losses also include an estimate of possible losses attributable to incidents that may have occurred but have not been identified under the incident reporting system. Historically, the actual liabilities incurred have not been materially different than the recorded estimates. Commercial insurance is provided for “stop-loss” coverage. As of June 30, 2019 and 2018, these amounts were estimated at approximately \$813,000 and \$961,000, respectively.

**Workers’ compensation program** – The District is a participant in the Association of California Hospital Districts’ 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 are 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. Management believes that the Fund will continue to operate with its current level of profitability.

**Medical malpractice** – The District maintains a claims-made policy for malpractice and comprehensive general liability loss. In accordance with generally accepted accounting principles in the United States of America, the District is required to record an estimated liability for unasserted claims for incidents which occurred but were not reported during the policy period. Unasserted claims were estimated at approximately \$312,000 and \$282,000 as of June 30, 2019 and 2018, respectively. The related liability is reported in accounts payable and accrued expenses in the statements of net position.

A summary of the changes in the unasserted claims estimated liability for the fiscal years ended June 30 is as follows:

BALANCE, as of July 30, 2017	\$	302,000
Reductions		(20,000)
BALANCE, as of June 30, 2018		282,000
Additions		30,000
BALANCE, as of June 30, 2019	\$	312,000

**Health insurance portability and accountability act** – The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

## **Pioneers Memorial Healthcare District**

### **Notes to Financial Statements**

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#### **Note 7 – Commitments and Contingencies (continued)**

**Healthcare regulatory compliance** – 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, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased 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 and regulations, as well as other applicable government laws and regulations. While no material 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.

#### **Note 8 – Pioneers Memorial Hospital Foundation and Women’s Auxiliary**

The Pioneers Memorial Hospital Foundation (the “Foundation”) has been established as a non-profit public benefit corporation under Internal Revenue Code Section 501(c)(3) to solicit contributions on behalf of the District. Substantially all funds raised, except for funds required for operation of the Foundation, are distributed to the District or held for the benefit of the District. The Foundation’s funds, which represent the Foundation’s unrestricted resources, are distributed to the District in amounts and in periods determined by the Foundation’s Board of Trustees, who may also restrict the use of funds for District property and equipment replacement or expansion or other specific purposes. Donations by the Foundation were approximately \$160,000 and \$80,000 for the years ended June 30, 2019 and 2018, respectively.

The Pioneers Memorial Hospital District Women’s Auxiliary (the “Auxiliary”) is a similar non-profit organization established to help solicit contributions for the District. The Auxiliary has committed to contribute funds in future years. The Auxiliary donated approximately \$27,000 and \$2,000 for the years ended June 30, 2019 and 2018, respectively.

#### **Note 9 – Seismic Issues**

The District continues to pursue efforts to bring its facilities into compliance with California Senate Bill 1953 (SB1953), which required that healthcare institutions meet certain seismic retrofitting specifications by January 1, 2013. As previously reported, studies revealed that the original District building and power plant building were classified as Structural Performance Category (SPC) 1. This classification was a result of findings that the District is located in an area that is subject to “liquefaction” in the event of certain seismic activity. As a result of this classification, the acute care services associated with the Medical-Surgical Nursing Unit, Laboratory, Radiology, Pharmacy, and Dietary departments would only be in compliance with current building codes until January 1, 2013. Prior to this date, studies were performed on the buildings in question and all buildings were successfully reclassified by the Office of Statewide Health Planning and Development (OSHPD) from SPC 1 to a minimum of SPC 2 prior to the given deadline. Therefore, the District has successfully achieved all of the structural compliance work necessary to meet the requirements of SB1953 for all of its campus buildings.

## Pioneers Memorial Healthcare District Notes to Financial Statements

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### **Note 9 – Seismic Issues (continued)**

The District continues to work diligently with representatives from OSHPD at the state, regional, and local level to complete all project documentation and additional verifications required to validate a 2002-2003 Non-structural Performance Category (NPC) project that was not finalized/closed by OSHPD, which meets the non-structural requirements of SB1953. The District re-classification of all District campus buildings to a minimum of NPC-2 as required by SB1953 is completed. OSHPD has processed the pending applications submitted by the District for the available extension/exemption for NPC-3 compliance for all campus buildings that should be granted given the NPC-2 status and the facilities' established Seismic Design Category "D" designation; applications for which were submitted by the District prior to the December 31, 2012 deadline. On September 16, 2013, the District obtained the 2030 NPC-3 extension.