



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS WITH
REQUIRED SUPPLEMENTARY INFORMATION

PIONEERS MEMORIAL HEALTHCARE DISTRICT

June 30, 2020 and 2019

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Pioneers Memorial Healthcare District Management's Discussion and Analysis

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, 2020, 2019, and 2018. Please read it in conjunction with the financial statements in this report.

Financial Highlights

Financial operations for fiscal year 2020 resulted in an increase in net position of approximately \$2,226,000 against a net position loss of approximately \$2,122,000 in fiscal year 2019. The increase was due primarily to the distribution of Coronavirus Aid, Relief, and Economic Security ("CARES") Act monies in the last quarter of the fiscal year.

In fiscal year 2020, the District experienced a decline of approximately 13.8% percent for inpatient admissions. Consequently, inpatient days fell by 7.0% 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 that started in fiscal year 2019 and partly due to Executive Order N-33-20 (the "Order") issued by Governor Gavin Newsom on March 19, 2020. Executive Order N-33-20 ordered all individuals living in the State of California to stay home or at their place of residence, except as needed for critical functions, in an effort to protect the health and well-being of all Californians from the infectious Coronavirus disease, also known as the COVID-19 virus. In addition, the Order also directed healthcare systems to prioritize patient services and resources to serve those who are the sickest and utilize personal protective equipment to care for them. With issuance of the Order, the District placed a hold on elective procedures and surgeries.

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 2019 hospital inpatient admissions numbered 5,146 while observation admits numbered 954. In fiscal year 2020, the number of inpatient admissions fell to 4,435, a decline of 13.8 percent, while observation admissions increased to 1,549, an increase of 62.4 percent.

Unfortunately, the District was unable to adjust spending quickly enough to keep pace with the decline in volumes and revenues. During fiscal year 2020, operating expenses decreased 1.1% percent over the previous year while both inpatient and outpatient volumes declined. The majority of the decrease in spending occurred within Salaries and Wages (3.1 percent), Supplies (5.9 percent), and Contract Labor (77.4 percent).

Pioneers Memorial Healthcare District Management's Discussion and Analysis

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

Capital Spending (Bond Projects)

During fiscal year 2020, the District spent \$2,989,246 in bond project funds on various projects. Total project spending to date sums to \$15,821,246. Below is a summary of that spending by major project:

	<u>Expenditures</u> <u>Fiscal Year 2020</u>	<u>Total</u> <u>to Date</u>	<u>Project</u> <u>Budget</u>
Operating room, cath lab	\$ 2,260,457	\$ 5,915,457	\$ 6,000,000
Emergency generator	-	835,000	1,300,000
Boiler replacement	-	1,973,000	1,600,000
Calexico Rural Health Clinic	452,253	4,170,253	3,200,000
Imaging center	48,409	1,568,409	931,000
Other	<u>228,127</u>	<u>1,359,127</u>	<u>615,000</u>
Total	<u><u>\$ 2,989,246</u></u>	<u><u>\$ 15,821,246</u></u>	<u><u>\$ 13,646,000</u></u>

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Upgrades and Expansions

Below is a list of the major projects which either became operational within the 2020 fiscal year or are expected to become operational within the 2021 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 2020 with occupancy to begin in spring of 2021.
- 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 commenced January 4, 2018, and was completed September 23, 2019. The clinic was licensed by CDPH in December 2019.

Capital Spending (Other)

During fiscal year 2020, 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>
Medical Surgical Renovation	Medical Surgical	\$ 213,000

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.

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?

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, 2020 and 2019, is presented in Table 1 below:

Table 1

Condensed Statement of Net Position

	2020	2019	\$ Change	% Change
ASSETS				
Current assets	\$ 60,475	\$ 51,486	\$ 8,989	17.5 %
Capital assets	33,978	34,432	(454)	(1.3)%
Other assets	3,378	4,939	(1,561)	(31.6)%
Total assets	\$ 97,831	\$ 90,857	\$ 6,974	7.7 %
LIABILITIES				
Current liabilities	\$ 27,433	\$ 21,486	\$ 5,947	27.7 %
Long-term debt and other	20,748	21,947	(1,199)	(5.5)%
Total liabilities	48,181	43,433	4,748	10.9 %
NET POSITION				
Total net position	49,650	47,424	2,226	4.7 %
Total liabilities and net position	\$ 97,831	\$ 90,857	\$ 6,974	7.7 %

As reflected in Table 1 for fiscal year 2020 and 2019, net position (earnings) increased by 4.7 percent for the year ended June 30, 2020. The District's current assets (cash and accounts receivable) increased 17.5 percent due mainly to the receipt of CARES Act monies from Health and Human Services "HHS", which is paid because of the impact of the COVID-19 virus on hospitals and healthcare systems. With the onset of the COVID-19 pandemic, the District was faced with various financial pressures and challenges. The pressures and challenges came from the cancellation of non-emergency procedures and surgeries, the postponement of care as individuals were ordered to stay at home, the increased demand and cost for certain medical equipment and supplies to treat COVID-19 patients, and a significant rise in the number of uninsured due to job losses. Capital assets (property, plant, and equipment) decreased by 1.3 percent as the District did not purchase many capital items aside from the projects funded by the Series 2017 Bonds proceeds. The decline of other assets of 31.6 percent reflects the "draw down" of Trustee-held funds as bond financed projects were completed.

Total liabilities increased by 10.9 percent as a result of the deferral of a portion of the CARES Act money received and a 4.3 percent decrease in trade accounts payable. Long-term debt was reduced by 5.5 percent with the continued principal reduction of the 2012 General Obligation Bonds. The 2012 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, 2019 and 2018, is presented in Table 2 below:

Table 2
Condensed Statement of Net Position

	2019	2018	\$ Change	% Change
ASSETS				
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>
LIABILITIES				
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>
NET POSITION				
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 2 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 approximately \$2,700,000 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)

The following table presents a summary of the District's revenues, expenses, and changes in net position for the years ended June 30, 2020 and 2019:

	Condensed Statement of Revenues, Expenses, and Changes in Net Position			
	2020	2019	Net Change	% Change
OPERATING REVENUES				
Net patient service revenue	\$ 112,120	\$ 121,334	\$ (9,214)	(7.6)%
Other	3,299	4,396	(1,097)	(25.0)%
Total operating revenues	115,419	125,730	(10,311)	(8.2)%
OPERATING EXPENSES				
Salaries and wages	53,260	53,570	(310)	(0.6)%
Supplies	19,816	21,053	(1,237)	(5.9)%
Professional fees	17,187	15,441	1,746	11.3 %
Registry and contract labor	840	3,605	(2,765)	(76.7)%
Other operating expenses	39,324	38,264	1,060	2.8 %
Total operating expenses	130,427	131,933	(1,506)	(1.1)%
OPERATING INCOME (LOSS)	(15,008)	(6,203)	(8,805)	141.9 %
NON-OPERATING REVENUES (EXPENSES)				
District tax revenues	3,187	3,117	70	2.2 %
Interest income	858	1,019	(161)	(15.8)%
Interest expense	(856)	(918)	62	(6.8)%
Contributions, net	308	8	300	3750.0 %
Grant income	13,103	-	13,103	n/a
Other non-operating revenues	634	855	(221)	(25.8)%
Total non-operating revenues	17,234	4,081	13,153	322.3 %
CHANGE IN NET POSITION	2,226	(2,122)	4,348	(204.9)%
NET POSITION				
Beginning of year	47,424	49,546	(2,122)	(4.3)%
End of year	\$ 49,650	\$ 47,424	\$ 2,226	4.7 %

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Required Financial Statements (continued)

Sources of Revenue

Operating revenue – In fiscal year 2020, the District derived 97.2 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, 2020, the District derived 2.9 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 Mechanics Bank. 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, 2020 and 2019.

Patient Volumes

A review of maternity services revealed that the number of births decreased 9.9 percent between fiscal year 2020 and 2019, with 1,524 births presenting in 2020 down from 1,691 births recorded in fiscal year 2019.

Hospital outpatient visits, mainly for Laboratory, Imaging, and other ancillary testing decreased 8.4 percent while Emergency Room volumes declined 5.3 percent. Some of the decline is due to changes caused by COVID-19 in the last quarter of fiscal year 2020.

Surgical volumes decreased by 3.9 percent over the previous year due to the March 19, 2020, executive order issued by Governor Newsom. The order essentially put a hold on non-essential procedures and surgeries in an effort to preserve personal protective equipment and resources for those sickest during the COVID-19 pandemic. The surgery volumes are slowly ramping back up to pre-COVID-19 numbers. It is expected that the growth in specialty services will continue as the District completes the construction of the Catheterization Laboratory or "Cath Lab" and opens a fifth operating room by Spring of 2021.

In total, the District's rural health center volumes decreased by 7.5 percent. The Calexico Clinic and the Pioneer Health Center volumes decreased slightly during fiscal year 2020; however, the Children's Health Center, which opened in March 2018, reported volume increases of 3.9 percent during fiscal year 2020.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Required Financial Statements (continued)

Revenues

Net patient revenues for fiscal year 2020 fell by 7.6 percent from fiscal year 2019 net patient revenues. The decline was the result of approximately a 7.8 percent reduction of inpatient revenues along with approximately a 6.7 percent decline in outpatient revenues.

Operating Expenses (Material expense variances are explained below)

Medical and other supply costs decreased by approximately \$1,237,000, or 5.9 percent, due to the decrease in surgical cases in the last quarter of fiscal year 2020.

Professional fees increased by approximately \$1,746,000, or 11.3 percent, due to increases in the cost of Radiology and Clinic professional services agreements. In addition, the District added an Interventional Cardiologist for the soon-to-be-open Cath Lab which resulted in approximately \$625,000 in additional professional fees.

Contract labor costs primarily for nursing staff coverage decreased by approximately \$2,765,000, or 76.7 percent, due to the District aggressively recruiting nursing staff both locally and from outside the District's immediate service area. It was only in the fourth quarter, due to COVID-19, that nursing registry returned to cover the surge of critical care patients.

Depreciation costs rose approximately \$163,000, or 4.2 percent, as bond financed assets were placed into service.

Other non-operating revenue consisting of CARES Act money, tax revenues, investment income, and interest expense totaled approximately \$17,234,000 in fiscal year 2020 against approximately \$4,081,000 from fiscal year 2019. The increase in non-operating revenues is attributable to the CARES Act HHS Provider Relief Fund totaling \$13,103,000.

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, 2019 and 2018:

	Condensed Statement of Revenues, Expenses, and Changes in Net Position			
	2019	2018	Net Change	% Change
OPERATING REVENUES				
Net patient service revenue	\$ 121,334	\$ 123,254	\$ (1,920)	(1.6)%
Other	4,396	3,244	1,152	35.5 %
Total operating revenues	<u>125,730</u>	<u>126,498</u>	<u>(768)</u>	<u>(0.6)%</u>
OPERATING EXPENSES				
Salaries and wages	53,570	50,928	2,642	5.2 %
Medical and other supplies	21,053	20,163	890	4.4 %
Professional fees	15,441	14,487	954	6.6 %
Registry and contract labor	3,605	1,645	1,960	119.1 %
Other operating expenses	38,264	37,280	984	2.6 %
Total operating expenses	<u>131,933</u>	<u>124,503</u>	<u>7,430</u>	<u>6.0 %</u>
OPERATING LOSS	<u>(6,203)</u>	<u>1,995</u>	<u>(8,198)</u>	<u>(410.9)%</u>
NON-OPERATING REVENUES (EXPENSES)				
District tax revenues	3,117	3,020	97	3.2 %
Interest income	1,019	132	887	672.0 %
Interest expense	(918)	(681)	(237)	34.8 %
Non-operating expenses	855	(287)	1,142	(397.9)%
Contributions, net	8	99	(91)	(91.9)%
Total non-operating revenues	<u>4,081</u>	<u>2,283</u>	<u>1,798</u>	<u>78.8 %</u>
CHANGE IN NET POSITION	<u>(2,122)</u>	<u>4,278</u>	<u>(6,400)</u>	<u>(149.6)%</u>
NET POSITION				
Beginning of year	<u>49,546</u>	<u>45,268</u>	<u>4,278</u>	<u>9.5 %</u>
End of year	<u>\$ 47,424</u>	<u>\$ 49,546</u>	<u>\$ (2,122)</u>	<u>(4.3)%</u>

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 funds from cafeteria receipts, rebates, refunds, and fees.

Pioneers Memorial Healthcare District

Management's Discussion and Analysis

Required Financial Statements (continued)

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 Imperial 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.

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.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Required Financial Statements (continued)

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 Information Technology (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)

Budget Results (Fiscal year ending June 30, 2020)

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, 2020, budget comparison and analysis is presented below:

	Actual vs Budget Results			
	Actual	Budget	\$ Change	% Change
OPERATING REVENUES				
Gross patient revenues	\$ 426,168	\$ 463,118	\$ (36,950)	(8.0)%
Deductions from revenues	(301,620)	(326,458)	24,838	7.6 %
Provision for bad debts	(12,428)	(11,142)	(1,286)	(11.5)%
Net patient revenue	112,120	125,518	(13,398)	(10.7)%
Other operating revenues	3,299	4,452	(1,153)	(25.9)%
Total operating revenues	115,419	129,970	(14,551)	(11.2)%
OPERATING EXPENSES				
Salaries, benefits, contract labor	69,436	70,807	(1,371)	(1.9)%
Medical and other supplies	19,816	20,294	(478)	(2.4)%
Depreciation and amortization	4,053	4,152	(99)	(2.4)%
Other operating expenses	37,122	37,373	(251)	(0.7)%
Total operating expenses	130,427	132,626	(2,199)	(1.7)%
OPERATING INCOME (LOSS)	(15,008)	(2,656)	(12,352)	465.1 %
NON-OPERATING REVENUES (EXPENSES)				
District tax revenues	3,187	3,080	107	3.5 %
Interest expense	858	(849)	1,707	(201.1)%
Grant income	13,103			
Other	86	989	(903)	(91.3)%
Total non-operating	17,234	3,220	911	28.3 %
CHANGE IN NET POSITION	\$ 2,226	\$ 564	\$ (11,441)	(2028.5)%

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Budget Comments

In comparing actual versus budgeted fiscal year 2020 results, the following was noted:

Overview

Financial operations for fiscal year 2020 resulted in an operating loss of approximately \$15,008,000 against a lower budgeted loss of approximately \$2,656,000, resulting in a negative to budget variance of approximately \$12,352,000 for the period. The unfavorable financial performance was largely the result of the stay-at-home orders and elective surgeries being postponed at the end of March 2020.

Non-operating revenues (expenses) were favorable to budget by \$911,000 due to the receipt of CARES Act monies from the Provider Relief Fund, which is paid because of the impact of COVID-19 on hospitals. For the fiscal year ending June 30, 2020, the District's operating and non-operating operations yielded a positive change in net position of approximately \$2,226,000 against a budgeted gain of approximately \$564,000.

Revenues

Total operating revenues (net patient revenues and other operating revenues) fell short of budget by 11.2 percent primarily because inpatient admissions fell below budgeted expectations by 7.3 percent. Similarly, outpatient revenues were below budget by 6.8 percent due to lower than budgeted clinic and emergency room volumes plus the decrease in the "elective" surgeries. The more notable revenue variances were:

- Room charges were below budget by 4.1 percent due to the 7.3 percent decline in patient days.
- Inpatient ancillary charges for inpatient services fell 13.6 percent below budget because of lower than budgeted inpatient volumes. The largest declines from budget were: Clinical Lab, Respiratory Therapy and Diagnostic Imaging.
- Outpatient revenues were under budget by 6.8 percent. The areas most affected were the Clinical Lab, Respiratory Therapy, Diagnostic Imaging, and the Rural Clinics.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Budget Comments (continued)

Expenses

In total, operating expenses were approximately 1.7 percent under budget. Salaries, benefits, and contract labor were under budget by 1.9 percent due to the flexing of staff during low census times. Non-staffing expenses (i.e., supplies, professional fees, depreciation and other expenses) ended the year over budget by 1.3 percent. Notable expense variances were:

- Contract labor was over budget by \$196,000 or 31.8 percent.
- Salaries and wages (employed) were under budget by \$2,022,000 or 3.7 percent.
- Depreciation expense was under budget by 2.4 percent.
- Supplies expense was under budget by 2.3 percent or \$474,000.

Economic Outlook

The District's Board and Management considered many factors when setting the fiscal year 2021 budget. The 2021 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 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 its net position to change from a positive \$2,226,000 to a positive \$138,000.

Specific factors and assumptions incorporated into the District's fiscal year 2021 budget include:

- Inpatient admissions are projected to increase slightly by approximately 1.6 percent.
- Emergency room volumes are expected to stay stable at around 46,500 visits annually.
- 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 Medi-Cal programs) along with other state Medi-Cal supplemental payments will drop from approximately 10 to 8 percent of net revenues in fiscal year 2021.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

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.

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 2021 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 \$15,000,000 to the District over the project's five-year life.

As of June 30, 2020, the District has successfully completed the program (i.e., DY 2011 through 2015) which has involved the selection of performance metrics and the accumulation of data to measure performance against.

The Department of Healthcare Services (DHCS) has a successor program that is similar to PRIME initiative labeled the Quality Improvement Program (QIP). However, unlike PRIME, funding for the program is to be delayed eighteen months after reporting is submitted.

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, 2020 and 2019, 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, 2020 and 2019, 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 part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Irvine, California
November 23, 2020

Pioneers Memorial Healthcare District
Statements of Net Position

ASSETS		June 30,	
	<u>2020</u>	<u>2019</u>	
CURRENT ASSETS			
Cash and cash equivalents	\$ 11,666,122	\$ 8,143,730	
Investments	27,885,531	18,149,588	
Patient accounts receivable, net of allowances for doubtful accounts of \$5,381,149 in 2020 and \$5,140,162 in 2019	9,601,300	11,563,781	
Other receivables	6,148,139	6,654,584	
Inventories	2,875,222	2,580,219	
Estimated third-party payor settlements	-	2,092,002	
Prepaid expenses and deposits	2,298,107	2,302,527	
Total current assets	<u>60,474,421</u>	<u>51,486,431</u>	
RESTRICTED CASH AND INVESTMENTS			
Held by trustee for capital expenditures	77,920	2,045,041	
Held by trustee for debt service and other	3,011,307	2,105,598	
	<u>3,089,227</u>	<u>4,150,639</u>	
PHYSICIAN ADVANCES, net of allowance	289,161	788,463	
CAPITAL ASSETS, net of accumulated depreciation	33,978,461	34,432,019	
Total assets	<u>\$ 97,831,270</u>	<u>\$ 90,857,552</u>	
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$ 2,133,728	\$ 1,855,000	
Accounts payable and accrued expenses	8,204,911	12,565,367	
Accrued payroll and related liabilities	7,189,606	6,252,791	
Unearned revenue	6,965,764	-	
Estimated third-party payor settlements	2,172,968	-	
Employee healthcare self-insurance reserve	766,454	813,213	
Total current liabilities	27,433,431	21,486,371	
LONG-TERM DEBT, net of current maturities	20,747,692	21,947,329	
Total liabilities	<u>48,181,123</u>	<u>43,433,700</u>	
NET POSITION			
Invested in capital assets, net of related debt	11,174,961	12,674,731	
Restricted, expendable for debt service and other purposes	3,011,307	2,105,598	
Unrestricted	35,463,879	32,643,523	
Total net position	<u>49,650,147</u>	<u>47,423,852</u>	
Total liabilities and net position	<u>\$ 97,831,270</u>	<u>\$ 90,857,552</u>	

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

	Years Ended June 30,	
	2020	2019
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$12,428,441 in 2020 and \$12,946,298 in 2019)	\$ 112,120,385	\$ 121,333,761
Other	3,299,020	4,396,515
Total operating revenues	<u>115,419,405</u>	<u>125,730,276</u>
OPERATING EXPENSES		
Salaries and wages	53,259,503	53,570,158
Supplies	19,815,571	21,052,835
Professional fees	17,187,498	15,441,469
Employee benefits	15,337,009	14,486,610
Purchased services	6,660,043	6,577,724
Repairs and maintenance	5,222,491	5,206,518
Depreciation and amortization	4,052,528	3,889,865
Building and equipment rent	2,281,538	1,765,824
Insurance	1,682,828	1,666,102
Utilities	1,341,525	1,452,533
Registry and contract labor	839,516	3,604,989
Other operating expenses	2,747,487	3,219,127
Total operating expenses	<u>130,427,537</u>	<u>131,933,754</u>
OPERATING LOSS	<u>(15,008,132)</u>	<u>(6,203,478)</u>
NON-OPERATING REVENUES (EXPENSES)		
District tax revenues	3,186,692	3,116,580
Investment income	858,346	1,019,359
Interest expense	(855,998)	(918,015)
Contributions, net	307,538	8,124
Grant income	13,103,417	-
Other non-operating revenues	634,432	855,318
Total non-operating revenues, net	<u>17,234,427</u>	<u>4,081,366</u>
CHANGE IN NET POSITION	2,226,295	(2,122,112)
NET POSITION		
Beginning of year	<u>47,423,852</u>	<u>49,545,964</u>
End of year	<u>\$ 49,650,147</u>	<u>\$ 47,423,852</u>

Pioneers Memorial Healthcare District Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third parties on behalf of patients	\$ 119,013,371	\$ 116,932,505
Cash received from operations, other than patient services	3,139,930	4,494,488
Cash payments to employees and benefit programs	(67,706,456)	(68,060,932)
Cash payments to suppliers and contractors	(61,930,234)	(56,875,926)
Net cash used in operating activities	<u>(7,483,389)</u>	<u>(3,509,865)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant income	13,103,417	-
Receipt of District taxes	1,317,476	1,248,677
Net cash provided by non-capital financing activities	<u>14,420,893</u>	<u>1,248,677</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipt of District taxes related to debt service	1,869,216	1,867,903
Capital grants and contributions, net	307,538	8,124
Purchase of capital assets, net of disposals	(3,598,970)	(7,788,810)
Interest payments on long-term debt	(855,998)	(918,015)
Principal payments on long-term debt	(2,002,116)	(1,682,606)
Proceeds from issuance of long-term debt, including premium	1,081,207	-
Net cash used in capital and related financing activities	<u>(3,199,123)</u>	<u>(8,513,404)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received from investments	1,499,196	1,019,359
Non-operating revenues	7,600,196	855,318
Purchase of investments	(23,698,241)	(15,031,751)
Proceeds from sale of investments	15,288,569	20,872,878
Change in restricted cash	(905,709)	100,658
Net cash provided by investing activities	<u>(215,989)</u>	<u>7,816,462</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,522,392	(2,958,130)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>8,143,730</u>	<u>11,101,860</u>
End of year	<u><u>\$ 11,666,122</u></u>	<u><u>\$ 8,143,730</u></u>

Pioneers Memorial Healthcare District Statements of Cash Flows (Continued)

	Years Ended June 30,	
	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (15,008,132)	\$ (6,203,478)
Adjustments to reconcile operating loss net cash used in operating activities		
Depreciation and amortization	4,052,528	3,889,865
Loss on disposal of equipment	-	2,491
Provision for bad debt	12,428,441	12,946,298
Changes in operating assets and liabilities		
Patient accounts receivables	(10,465,960)	(14,547,329)
Other receivables	506,445	(925,076)
Inventories	(295,003)	(58,345)
Estimated third-party payor settlements	4,264,970	(1,777,176)
Prepaid expenses and deposits	4,420	(148,986)
Physician advances	499,302	184,981
Accounts payable and accrued expenses	(4,360,456)	3,131,054
Accrued payroll and related liabilities	936,815	143,174
Employee healthcare self-insurance reserve	(46,759)	(147,338)
Net cash used in operating activities	<u>\$ (7,483,389)</u>	<u>\$ (3,509,865)</u>

Pioneers Memorial Healthcare District Notes to Financial Statements

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

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 \$495,000 and \$519,000 for the years ended June 30, 2020 and 2019, 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

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

Restricted cash and investments – Restricted cash as of June 30, 2020 and 2019, was comprised of the following:

	2020	2019
Restricted for debt service	\$ 2,953,859	\$ 2,064,764
Restricted for capital expenditures	77,920	2,045,041
Other	57,448	40,834
	\$ 3,089,227	\$ 4,150,639

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 6.

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

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 full-time or part-time status. 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, 2021.

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, 2022.

Pioneers Memorial Healthcare District Notes to Financial Statements

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, 2022.

Reclassifications – The District 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 payors that provide for payments to the District. Significant concentrations of gross patient accounts receivable as of June 30 were as follows:

	2020	2019
Medicare	\$ 16,713,821	\$ 17,866,284
Medi-Cal and Medi-Cal pending	28,322,304	28,557,727
Other third-party payors	15,698,141	14,552,252
Self-pay and other	5,675,780	5,474,242
Other government programs	49,960	44,986
Contractual allowances	(51,477,557)	(49,791,548)
Patient accounts receivable	14,982,449	16,703,943
Less: allowances for doubtful accounts	(5,381,149)	(5,140,162)
Net patient accounts receivable	\$ 9,601,300	\$ 11,563,781

Significant concentrations of gross patient accounts receivable as of June 30, 2020 and 2019, include Medicare, 25 and 27 percent, respectively; Medi-Cal, 43 and 43 percent, respectively; and other third-party payors, 24 and 22 percent, respectively.

Amounts written off to bad-debt expense included in net patient service revenue totaled approximately \$12,428,000 and \$12,946,000 for the years ended June 30, 2020 and 2019, respectively.

Pioneers Memorial Healthcare District

Notes to Financial Statements

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 – Medi-Cal payments for inpatient services are based upon case-based Diagnosis Related Groups (DRGs). 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 2018 through 2020 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, 2020 and 2019, net patient service revenue increased approximately \$321,000 and \$4,143,000, 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

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 \$6,148,000 and \$6,655,000 as of June 30, 2020 and 2019, 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

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	\$ 2,075,812	\$ 3,318,923
Managed Care Rate Range IGT	4,256,288	4,291,444
NDPH-IGT AB-113	(69,736)	1,466,218
QAF Supplemental Payment and QAF Managed Care Funds	2,686,296	1,856,185
Medi-Cal DSH Program	3,627,107	3,066,930
Totals	<u>\$ 12,575,767</u>	<u>\$ 13,999,700</u>

Note 3 – Provider Relief Funds (PRF)

COVID-19 Pandemic – On March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The CARES Act included provisions for health care under the Provider Relief Fund. During April, May, and June 2020, the District received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (“HHS”) of approximately \$20,069,000. The District was required to and did timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to COVID-19, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Office of the Inspector General. The District’s management is currently determining its ability to comply with these terms and conditions. For the year ended June 30, 2020, the District has recognized approximately \$13,103,000 of the Provider Relief Fund on its statement of operations and changes in net assets as grant income in non-operating revenue. The remaining approximately \$6,966,000 is included in unearned revenue.

Pioneers Memorial Healthcare District Notes to Financial Statements

Note 4 – 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, 2020 and 2019, the District held approximately \$61,000 and \$60,000 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.

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, 2020 and 2019, the District had deposits invested in various financial institutions consisting of cash and cash equivalents, and restricted cash, which amounted to approximately \$13,383,000 and \$8,640,000, 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.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Note 4 – Deposits, Investments, and Investment Income (continued)

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, 2020 and 2019, are as follows:

Investment type	Fair Value	Percentage	Fair Value	Percentage
		of Total Investments		of Total Investments
U.S. government bonds	10,314,003	34%	10,672,865	49%
Corporate bonds	7,930,433	26%	4,011,537	27%
Money market mutual funds	11,528,674	38%	3,681,657	17%
Municipal bonds	406,978	1%	1,550,874	7%

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.

The District had investments by type and maturity as follows:

Investment type	Fair Value	June 30, 2020	
		Investment Maturities (in Years)	
		Less than 1	1-5
Money market mutual funds	\$ 11,450,754	\$ 11,450,754	\$ -
Local Agency Investment Fund	61,331	61,331	-
U.S. government bonds	9,330,470	983,533	8,346,937
Municipal bonds	406,978	406,978	-
Corporate bonds	7,930,433	847,780	7,082,653
Held by trustee			
Money market mutual funds	77,920	77,920	-
U.S. government bonds	983,533	983,533	-
	<u>\$ 30,241,419</u>	<u>\$ 14,811,829</u>	<u>\$ 15,429,590</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.

Pioneers Memorial Healthcare District
Notes to Financial Statements

Note 4 – Deposits, Investments, and Investment Income (continued)

	June 30, 2019		
	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
Investment type			
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	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>

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.

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.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Note 4 – Deposits, Investments, and Investment Income (continued)

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

	Fair Market Value as of June 30, 2020			
	Total	Level 1	Level 2	Level 3
Investments				
Money market mutual funds	\$ 11,450,754	\$ 11,450,754	\$ -	\$ -
Local Agency Investment Fund	61,331	-	61,331	-
U.S. government bonds	9,330,470	-	9,330,470	-
Municipal bonds	406,978	-	406,978	-
Corporate bonds	7,930,433	-	7,930,433	-
Held by trustee				
Money market mutual funds	77,920	77,920	-	-
U.S. government bonds	983,533	-	983,533	-
	<u>\$ 30,241,419</u>	<u>\$ 11,528,674</u>	<u>\$ 18,712,745</u>	<u>\$ -</u>

	Fair Market Value as of June 30, 2019			
	Total	Level 1	Level 2	Level 3
Investments				
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 5 – Capital Assets

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

	Balance as of June 30, 2019	Additions	Retirements	Transfers	Balance as of June 30, 2020
Land and land improvements	\$ 2,528,894	\$ -	\$ -	\$ -	\$ 2,528,894
Buildings and improvements	49,600,956	10,959	-	5,362,546	54,974,461
Equipment	54,844,522	307,937	(9,854)	-	55,142,605
Construction in progress	9,036,991	3,280,074	-	(5,362,546)	6,954,519
Totals at historical cost	116,011,363	3,598,970	(9,854)	-	119,600,479
Less accumulated depreciation for					
Land and land improvements	(393,585)	(33,353)	-	-	(426,938)
Buildings and improvements	(37,625,270)	(1,132,255)	-	-	(38,757,525)
Equipment	(43,560,489)	(2,886,920)	9,854	-	(46,437,555)
Total accumulated depreciation	(81,579,344)	(4,052,528)	9,854	-	(85,622,018)
Capital assets, net	\$ 34,432,019	\$ (453,558)	\$ -	\$ -	\$ 33,978,461

	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	108,584,025	7,788,810	(361,472)	-	116,011,363
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	(41,119,362)	(2,800,108)	358,981	-	(43,560,489)
Total accumulated depreciation	(78,048,460)	(3,889,865)	358,981	-	(81,579,344)
Capital assets, net	\$ 30,535,565	\$ 3,898,945	\$ (2,491)	\$ -	\$ 34,432,019

Pioneers Memorial Healthcare District

Notes to Financial Statements

Note 6 – Long-Term Debt

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

	Balance as of June 30, 2019	Additions	Payments and Reductions	Balance as of June 30, 2020	Due Within 1 Year
2017 Bonds	\$ 15,640,000	\$ -	\$ (255,000)	\$ 15,385,000	\$ 265,000
2012 Bonds	6,015,000	-	(1,415,000)	4,600,000	1,475,000
2004 Bonds	1,235,000	-	(185,000)	1,050,000	190,000
GE HFS Loan	-	1,081,207	(33,326)	1,047,881	203,728
Unamortized bond premium related to 2017 Bonds	657,870	-	(35,495)	622,375	-
Unamortized bond premium related to 2012 Bonds	254,459	-	(78,295)	176,164	-
	<u>\$ 23,802,329</u>	<u>\$ 1,081,207</u>	<u>\$ (2,002,116)</u>	<u>\$ 22,881,420</u>	<u>\$ 2,133,728</u>

	Balance as of June 30, 2018	Additions	Payments	Balance as of June 30, 2019	Due Within 1 Year
2017 Bonds	\$ 15,640,000	\$ -	\$ -	\$ 15,640,000	\$ 255,000
2012 Bonds	7,375,000	-	(1,360,000)	6,015,000	1,415,000
2004 Bonds	1,410,000	-	(175,000)	1,235,000	185,000
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	-
	<u>\$ 25,484,935</u>	<u>\$ -</u>	<u>\$ (1,682,606)</u>	<u>\$ 23,802,329</u>	<u>\$ 1,855,000</u>

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. The 2017 Bonds were issued at a premium totaling \$714,690 which is being amortized over the life of the 2017 Bonds.

Pioneers Memorial Healthcare District Notes to Financial Statements

Note 6 – Long-Term Debt (continued)

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 \$1,535,000 and \$1,412,000 for the years ended June 30, 2020 and 2019, 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 \$578,000 and \$456,000 as of June 30, 2020 and 2019, 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

Note 6 – Long-Term Debt (continued)

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

Future Principal Maturities

Years Ending June 30,	
2021	\$ 2,133,728
2022	2,210,344
2023	2,317,174
2024	749,227
2025	742,408
2026-2030	1,860,000
2031-2035	2,385,000
2036-2040	3,080,000
2041-2045	3,875,000
2046-2048	<u>2,730,000</u>
	22,082,881
	<u>798,539</u>
	<u><u>\$ 22,881,420</u></u>

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Premium</u>
2021	\$ 2,133,728	\$ 913,996	\$ 114,030
2022	2,210,344	825,124	114,030
2023	2,317,174	730,613	55,308
2024	749,227	681,676	35,735
2025	742,408	647,259	35,735
2026-2030	1,860,000	2,964,500	178,675
2031-2035	2,385,000	2,436,375	178,675
2036-2040	3,080,000	1,757,000	86,351
2041-2045	3,875,000	949,850	-
2046-2048	<u>2,730,000</u>	<u>166,600</u>	<u>-</u>
	<u><u>\$ 22,082,881</u></u>	<u><u>\$ 12,072,993</u></u>	<u><u>\$ 798,539</u></u>

The District incurred approximately \$856,000 and \$918,000 in interest during the years ended June 30, 2020 and 2019, respectively, on all debt including general obligation bonds. The District recognized approximately \$115,000 and \$114,000 of amortization related to the bond premium during the years ended June 30, 2020 and 2019, respectively.

Pioneers Memorial Healthcare District Notes to Financial Statements

Note 7 – 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 ongoing 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, 2020 and 2019, the District's expense to fund its share of the 401(a) plan was approximately \$1,529,000 and \$1,379,000, 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 8 – 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, 2020 and 2019, was approximately \$2,282,000 and \$1,765,000, respectively.

Future minimum lease payments for the succeeding years under operating leases as of June 30, 2020, that have initial or remaining lease terms in excess of one year are as follows:

Years Ending June 30,	
2021	\$ 1,548,591
2022	1,548,591
2023	1,026,990
2024	1,026,990
2025	1,026,990
Thereafter	<u>6,060,009</u>
	<u>\$ 12,238,161</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, 2020, 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

Note 8 – 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, 2020 and 2019, these amounts were estimated at approximately \$766,000 and \$813,000, 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 \$277,000 and \$312,000 as of June 30, 2020 and 2019, 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, 2018	\$ 282,000
Additions	<u>30,000</u>
BALANCE, as of June 30, 2019	312,000
Reductions	<u>(35,000)</u>
BALANCE, as of June 30, 2020	<u><u>\$ 277,000</u></u>

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

Note 8 – 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.

COVID-19 Pandemic – In March 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their patients and customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the District’s operations. The global pandemic and public health emergency had a significant negative effect on the District’s results of operations and cash flows. In accordance with guidance provided by the Centers for Disease Control and Prevention (“CDC”), the District stopped all elective procedures and appointments in March 2020. At this time, it is not possible to estimate the complete impact of the effect on the District.

The District’s management has been closely monitoring the impact of COVID-19 on the District’s operations, including the impact on its patients and employees. The duration and intensity of the pandemic is uncertain but may influence patient decisions, donor decisions, and may also negatively impact collections of the District’s receivables.

Note 9 – 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, which 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 \$1,000 and \$160,000 for the years ended June 30, 2020 and 2019, 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 \$46,000 and \$27,000 for the years ended June 30, 2020 and 2019, respectively.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Note 10 – 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 “liquidification” 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.

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.

Note 11 – Subsequent Events

During July 2020, the District received additional funds of \$5,500,000 under the PRF, administered by HHS, under the CARES Act. These funds are subject to the same terms and conditions noted in Note 3.

In September 2020, the District received advances from Medicare under the Medicare Accelerated Payment Program, administered by the Centers for Medicare and Medicaid Services, of approximately \$14,800,000. This amount is treated as a loan bearing no interest and was scheduled to be recouped beginning 120 days following receipt of the accelerated payments and repaid in full not later than one year following payment receipt. On September 30, 2020, a new funding bill was enacted which delays recoupment of such funds. The recently finalized funding bill now gives hospitals one year before Medicare can claim payments to repay the loans. The District expects recoupment to begin in September 2021 and will have 29 months from the first payment to fully repay the loan if not recouped by Medicare at that time. Interest will accrue on outstanding payments after the 29-month period at 4%.