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Reports of Independent Auditors and Financial Statements with
Required Supplementary Information

Pioneers Memorial Healthcare District

June 30, 2024 and 2023



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Pioneers Memorial Healthcare District

Management's Discussion and Analysis

Pioneers Memorial Healthcare District's (the District) 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, 2024 and 2023.

Financial Highlights

Financial operations for fiscal year 2024 resulted in an increase in net position of approximately \$9,738,000 against a net position increase of approximately \$593,000 in fiscal year 2023. The increase was due primarily to the increase in census which brought an increase in revenue combined with a Medicare 340b reimbursement for \$2,900,000.

In fiscal year 2024, the District experienced an increase of approximately 22.9% for inpatient admissions. Inpatient days increased by 18.1% even with the District's average length of stay decreasing from 3.60 to 3.46 days. The outpatient revenues stayed consistent with a slight increase of 0.6%. Fiscal Year 2024 was the first full year with the Pioneers Memorial Skilled Nursing Center and the District being the sole Maternity and Pediatric departments in Imperial County.

During fiscal year 2024, operating expenses increased 10.6% over the previous year. Most of the increase in operating expenses was in insurance, 24.0%, benefits, 9.4%; and supplies, 5.5%.

Capital Spending (Other)

During fiscal year 2024, the District made the following capital expenditures greater than \$100,000 financed from hospital cash reserves:

Capital Expenditure	Department	Amount
Chemistry Analyzers-Two	Lab	\$ 409,181
Olympus Surgical Towers-Four	Surgery	\$ 504,267
Compressor Ventilator	Respiratory	\$ 125,062
Stethoscope Camera System-Three	Telecarts - Grant	\$ 100,667

Required Financial Statements

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

Pioneers Memorial Healthcare District Management's Discussion and Analysis

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

A summary of the District's statements of net position as of June 30, 2024 and 2023, is presented in Table 1 below:

Table 1

Condensed Statements of Net Position

	2024	2023	\$ Change	% Change
ASSETS				
Current assets	\$ 92,126	\$ 56,757	\$ 35,369	62.3 %
Capital assets	29,763	29,317	446	1.5 %
Lease right-of-use and SBITA assets	64,931	49,415	15,516	31.4 %
Other assets	2,021	1,996	25	1.3 %
 Total assets	 <u>\$ 188,841</u>	 <u>\$ 137,485</u>	 <u>\$ 51,356</u>	 37.4 %
LIABILITIES				
Current liabilities	\$ 31,187	\$ 23,081	\$ 8,106	35.1 %
Lease and SBITA liabilities	62,268	48,170	14,098	29.3 %
Long-term debt and other	41,383	21,969	19,414	88.4 %
 Total liabilities	 134,838	 93,220	 41,618	 44.6 %
NET POSITION				
Total net position	54,003	44,265	9,738	22.0 %
 Total liabilities and net position	 <u>\$ 188,841</u>	 <u>\$ 137,485</u>	 <u>\$ 51,356</u>	 37.4 %

As reflected in Table 1 for fiscal year 2024 and 2023, net position (earnings) increased by 22.0% for the fiscal year ended June 30, 2024. The District's current assets (cash, accounts receivable, inventory and prepaids) increased 62.3%. In November 2023 the District received a loan from the California Hospital District Loan Program of \$28,000,000. The District has worked diligently at improving quality as well as the bottom line. Capital assets (property, plant, and equipment) increased by 1.5% because of capital additions of approximately \$4,173,000 offset by depreciation expense of approximately \$3,355,000 and net of the effect of retirements.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Total liabilities increased by 44.6% due to a combination of an increase in lease and SBITA liabilities (34.8%) related to the DaVinci robot, Cerner implementation and an increase in long-term debt and other liabilities (88.4%) due to the Distressed Loan liability. The District received the \$28,000,000 loan in November of 2023 as part of a Distressed Hospital program through the state. This loan is an interest free loan with payments starting in May 2025 of \$519,000 per month and matures in October 2029. The 2012 General Obligation Bonds will be paid off in fiscal year 2025.

A summary of the District's statements of net position as of June 30, 2023 and 2022, is presented in Table 2 below:

Table 2

Condensed Statements of Net Position

	2023	2022	\$ Change	% Change
ASSETS				
Current assets	\$ 56,757	\$ 56,627	\$ 130	0.2 %
Capital assets	29,317	31,763	(2,446)	(7.7)%
Lease right-of-use assets	49,415	22,619	26,796	118.5 %
Other assets	1,996	1,954	42	2.1 %
Total assets	\$ 137,485	\$ 112,963	\$ 24,522	21.7 %
LIABILITIES				
Current liabilities	\$ 23,081	\$ 28,578	\$ (5,497)	(19.2)%
Lease obligations	48,170	21,681	26,489	122.2 %
Long-term debt and other	21,969	19,032	2,937	15.4 %
Total liabilities	93,220	69,291	23,929	34.5 %
NET POSITION				
Total net position	44,265	43,672	593	1.4 %
Total liabilities and net position	\$ 137,485	\$ 112,963	\$ 24,522	21.7 %

As reflected in Table 2 for fiscal year 2023 and 2022, net position (earnings) increased by 1.4% for the fiscal year ended June 30, 2023. The District's current assets (cash, accounts receivable, inventory and prepaids) increased 0.2%. With the continuance of the COVID-19 pandemic, the District continued to face the same pressures and challenges the first half of fiscal year 2023. For the second half of fiscal year 2023 the expenses in registry and supplies started to decrease as well as an increase in census. The District has worked diligently at improving quality as well as the bottom line. Capital assets (property, plant, and equipment) decreased by 7.7% as a result of capital additions of approximately \$1,125,000 offset by depreciation expense of approximately \$3,473,000.

Total liabilities increased by 34.5% due to a combination of increase in leases obligations (122.2%) related to the lease for the Distinct Part Nursing Facility (DPNF) and a decrease in current liabilities (19.2%) due to repayment of the Medicare Advanced payment that was received in September 2020. The District received approximately \$14,763,000 that was to be paid back to Medicare over an 18-month period starting one year from receipt of payment and was paid off in March 2023. The 2012 General Obligation Bonds will be paid off in fiscal year 2025.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

The following table presents a summary of the District's revenues, expenses, and changes in net position for the years ended June 30, 2024 and 2023, is presented in Table 3 below:

Table 3

Condensed Statements of Revenues,
Expenses, and Changes in Net Position

	2024	2023	\$ Net Change	% Change
OPERATING REVENUES				
Net patient service revenue	\$ 157,856	\$ 125,714	\$ 32,142	25.6 %
Other	6,006	7,994	(1,988)	(24.9)%
Total operating revenues	163,862	133,708	30,154	22.6 %
OPERATING EXPENSES				
Salaries and wages	67,925	55,325	12,600	22.8 %
Supplies	19,140	18,145	995	5.5 %
Employee benefits	18,173	16,612	1,561	9.4 %
Professional fees	16,634	17,667	(1,033)	(5.8)%
Registry and contract labor	3,379	5,820	(2,441)	(41.9)%
Other operating expenses	31,834	28,470	3,364	11.8 %
Total operating expenses	157,085	142,039	15,046	10.6 %
OPERATING INCOME (LOSS)	6,777	(8,331)	15,108	(181.3)%
NON-OPERATING REVENUES (EXPENSES)				
District tax revenues	1,646	3,336	(1,690)	(50.7)%
Investment income	1,011	7	1,004	14342.9 %
Interest expense	(667)	(699)	32	(4.6)%
Contributions, net	447	544	(97)	(17.8)%
Grant income	550	4,971	(4,421)	(88.9)%
Other non-operating (expenses) revenue	(26)	765	(791)	(103.4)%
Total non-operating revenues, net	2,961	8,924	(5,963)	(66.8)%
CHANGE IN NET POSITION	9,738	593	9,145	1542.2 %
NET POSITION				
Beginning of year	44,265	43,672	593	1.4 %
End of year	\$ 54,003	\$ 44,265	\$ 9,738	22.0 %

Sources of Revenue

Operating revenue – In fiscal year 2024, the District derived 96.3% of its total operating revenue from patient care operations. Patient care operations include medically acute inpatient, skilled nursing and outpatient care, including physician care. The remaining portion of operating revenues includes cafeteria receipts, rebates, refunds, and fees.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Non-operating revenue – For the year ended June 30, 2024, the District derived 3.7% of its total revenue from investment income, property tax revenue and from a grant received from the Federal Emergency Management Agency (FEMA). FEMA reimbursed for expenses related to taking care of COVID-19 patients. These expenses were from current and previous fiscal years and were mostly nursing registry expenses. 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, 2024 and 2023.

Patient volumes – A review of maternity services revealed that the number of births increased 15.6% between fiscal year 2024 and 2023, with 2,201 births presenting in 2024 up from 1,904 births recorded in fiscal year 2023. Hospital outpatient visits, for laboratory, imaging, and other ancillary testing, increased slightly by 0.9% and Emergency Department (ED) volumes increased by 0.5%.

Surgical volumes had a slight increase by 10.6% over the previous year, mostly in scopes. In total, the District's rural health center volumes decreased on average by 17.9%. The Pioneer Health Center volumes decreased by 16.4%, Calexico Health Center decreased 19.6% and Pioneers Children's Health Center decreased 17.6%.

Revenues – Net patient revenues for fiscal year 2024 had an increase of 25.6% from fiscal year 2023. This increase is attributable to higher revenues and prior year recovery from Medicare 340b reimbursement.

Operating expenses (significant expense variances are explained below) – Medical and other supply costs increased by approximately \$995,000 or 5.5%, due to the increase in supplies needed to care for the increase of patients.

Professional fees decreased by approximately \$1,033,000 or 5.8% due to lower legal costs.

Registry and contract labor costs primarily for nursing staff coverage decreased by approximately \$2,441,000, or 41.9%, due to not renewing registry agreements and hiring of more nursing staff. Although the District hired nurses it continues with recruiting efforts for nursing staff both locally and from outside the District's immediate service area. Recruitment of nurses will most likely be an issue in many hospitals for a few years.

Other non-operating revenue consisting of the grant received from FEMA, investment income, and interest expense totaled approximately \$2,961,000 in fiscal year 2024 against approximately \$8,924,000 from fiscal year 2023. The decrease in non-operating revenues is due to the grants received from FEMA in 2023, which was \$4,971,000.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

The following table presents a summary of the District's revenues, expenses, and changes in net position for the years ended June 30, 2023 and 2022, is presented in Table 4 below:

Table 4

Condensed Statements of Revenues,
Expenses, and Changes in Net Position

	2023	2022	Net Change	% Change
OPERATING REVENUES				
Net patient service revenue	\$ 125,714	\$ 123,964	\$ 1,750	1.4 %
Other	<u>7,994</u>	<u>3,790</u>	<u>4,204</u>	110.9 %
Total operating revenues	<u>133,708</u>	<u>127,754</u>	<u>5,954</u>	4.7 %
OPERATING EXPENSES				
Salaries and wages	55,325	51,238	4,087	8.0 %
Supplies	17,667	22,655	(4,988)	(22.0)%
Employee benefits	16,612	15,185	1,427	9.4 %
Professional fees	18,145	17,631	514	2.9 %
Registry and contract labor	5,820	8,227	(2,407)	(29.3)%
Other operating expenses	<u>28,470</u>	<u>29,242</u>	<u>(772)</u>	(2.6)%
Total operating expenses	<u>142,039</u>	<u>144,178</u>	<u>(2,139)</u>	(1.5)%
OPERATING LOSS	<u>(8,331)</u>	<u>(16,424)</u>	<u>8,093</u>	(49.3)%
NON-OPERATING REVENUES (EXPENSES)				
District tax revenues	3,336	3,239	97	3.0 %
Investment income	7	(779)	786	(100.9)%
Interest expense	(699)	(723)	24	(3.3)%
Non-operating expenses	765	167	598	358.1 %
Contributions, net	544	4,344	(3,800)	(87.5)%
Grant income	<u>4,971</u>	<u>1,080</u>	<u>3,891</u>	360.3 %
Total non-operating revenues, net	<u>8,924</u>	<u>7,328</u>	<u>1,596</u>	21.8 %
CHANGE IN NET POSITION	593	(9,096)	9,689	(106.5)%
NET POSITION				
Beginning of year	<u>43,672</u>	<u>52,768</u>	<u>(9,096)</u>	(17.2)%
End of year	<u>\$ 44,265</u>	<u>\$ 43,672</u>	<u>\$ 593</u>	1.4 %

Sources of Revenue

Operating revenue – In fiscal year 2023, the District derived 94.0% of its total operating revenue from patient care operations. Patient care operations include medically acute inpatient, skilled nursing and outpatient care, including physician care. The remaining portion of operating revenues includes cafeteria receipts, rebates, refunds, and fees.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Non-operating revenue – For the year ended June 30, 2023, the District derived 6.0% of its total revenue from investment income, property tax revenue and from a grant received from FEMA. FEMA reimbursed for expenses related to taking care of COVID-19 patients. These expenses were from current and previous fiscal years and were mostly nursing registry expenses. 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, 2023 and 2022.

Patient volumes – A review of maternity services revealed that the number of births increased 16.8% between fiscal year 2023 and 2022, with 1,904 births presenting in 2023 up from 1,630 births recorded in fiscal year 2022. Hospital outpatient visits, for laboratory, imaging, and other ancillary testing, decreased slightly by 0.2% and ED volumes increased by 4.8%. The increase in ED volumes were most likely due to an increased community awareness surrounding COVID-19 and a lessened fear of coming in contact with the virus in a hospital or clinic setting.

Surgical volumes had a slight decrease by 0.6% over the previous year. In total, the District's rural health center volumes increased by 0.1%. The Pioneer Health Center volumes increased during fiscal year 2023; however, the Calexico Health Center and Pioneers Children's Health Center reported volume decrease of 3.8% during fiscal year 2023.

Revenues – Net patient revenues for fiscal year 2023 stayed consistent with a slight increase of 1.4% from fiscal year 2022. This increase is attributable to lower bad debt and prior year recoveries from Medicare and Medi-Cal.

Operating expenses (significant expense variances are explained below) – Medical and other supply costs decreased by approximately \$4,988,000 or 22.0%, due to the decrease in supplies needed in pharmacy and lab to treat COVID-19 patients.

Professional fees increased by approximately \$514,000, or 2.9%.

Registry and contract labor costs primarily for nursing staff coverage decreased by approximately \$2,407,000, or 29.3%, due to not renewing registry agreements and hiring of more nursing staff. Although the District hired nurses it continues with recruiting efforts for nursing staff both locally and from outside the District's immediate service area. While California Emergency Medical Services Authority (EMSA) provided emergency medical technicians, nurses and staffing during the COVID-19 surge for the winter of fiscal year 2022, the District was solely responsible for necessary registry nursing staffing for fiscal year 2023.

Other non-operating revenue consisting of the grant received from FEMA, investment income, and interest expense totaled approximately \$8,924,000 in fiscal year 2023 against approximately \$7,328,000 from fiscal year 2022. The increase in non-operating revenues is attributable to the changes in the stock market that affected the wealth management account, and the grant received from FEMA.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Budget Results (Fiscal year ending June 30, 2024)

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. At June 30, 2024, budget comparison and analysis is presented in Table 5 below:

Table 5

	Actual vs Budget Results			
	Actual	Budget	\$ Change	% Change
OPERATING REVENUES				
Gross patient service revenues	\$ 508,909	\$ 463,034	\$ 45,875	9.9 %
Deductions from revenues	(340,260)	(298,095)	(42,165)	(14.1)%
Provision for bad debts	(10,793)	(12,856)	2,063	16.0 %
Net patient service revenue	157,856	152,083	5,773	3.8 %
Other operating revenues	6,006	4,362	1,644	37.7 %
Total operating revenues	163,862	156,445	7,417	4.7 %
OPERATING EXPENSES				
Salaries, benefits, contract labor	89,476	87,934	1,542	1.8 %
Supplies	19,140	18,808	332	1.8 %
Depreciation and amortization	3,355	3,398	(43)	(1.3)%
Other operating expenses	45,114	44,393	721	1.6 %
Total operating expenses	157,085	154,533	2,552	1.7 %
OPERATING INCOME	6,777	1,912	4,865	254.4 %
NON-OPERATING REVENUES (EXPENSES)				
District tax revenues	1,646	1,646	-	0.0 %
Interest expense	(667)	(667)	-	0.0 %
Grant income	550	620	(70)	(11.3)%
Other	1,432	(80)	1,512	(1890.0)%
Total non-operating revenues, net	2,961	1,519	1,442	94.9 %
CHANGE IN NET POSITION	\$ 9,738	\$ 3,431	\$ 6,307	183.8 %

Pioneers Memorial Healthcare District

Management's Discussion and Analysis

Budget Comments

In comparing actual versus budgeted fiscal year 2024 results, the following was noted:

Overview

Financial net position for fiscal year 2024 resulted in a change in net position of approximately \$9,738,000 against a budgeted change of approximately \$3,431,000, resulting in a positive to budget variance of approximately \$6,307,000 for the period. The favorable financial performance was largely the result of a Medicare 340b reimbursement for \$2,900,000 combined with higher census.

Non-operating revenues (expenses) were favorable to budget by approximately \$1,442,000 due to the increase in investment income.

Revenues

Total operating revenues (net patient revenues and other operating revenues) exceeded budget by 4.7% primarily because of an increase in collections and a higher Disproportionate Share Hospital Supplemental payment than budgeted, due to the Federal Government not decreasing the program as anticipated. The more notable revenue variances were:

- Daily Hospital Services revenues were on budget by 0.03%.
- Inpatient ancillary charges for inpatient services were over budget by 37.2%.
- Outpatient revenues were over budget by 5.4%. The areas most affected were the Emergency Room, Surgery, Pharmacy and Diagnostic Services.

Expenses

In total, operating expenses were approximately 1.7% over budget. Salaries, benefits, and contract labor were over budget by 1.8% due to the high registry cost of nurses, mostly in Labor and Delivery and Medical Surgical. Non-staffing expenses (i.e., supplies, professional fees, depreciation, and other expenses) ended the year over budget by 1.5%. Notable expense variances were:

- Contract labor was over budget by approximately \$1,495,000 or 79.4%.
- Salaries and wages (employed) were over budget by approximately \$1,447,000 or 2.8%.
- Depreciation and amortization expenses were under budget by \$43,000 or 1.3%.
- Supplies expense was under budget by approximately \$332,000 or 1.8%.

Pioneers Memorial Healthcare District Management's Discussion and Analysis

Economic Outlook

The District's Board and Management considered several factors when working and approving the fiscal year 2025 budget. In preparing the budget we decided to mostly keep the census in fiscal year 2025 flat with fiscal year 2024 census with exception of surgery volumes as they continue to increase after the COVID decline. The fiscal year 2025 budget, the District expected revenue to stay flat and expenses, mostly salaries, to increase.

Specific factors and assumptions incorporated into the District's fiscal year 2025 budget include:

- Traditional inpatient and outpatient volumes are expected to stay steady with fiscal year 2024 volumes.
- Emergency Room volumes are projected to stay consistent in the fiscal year 2024.
- Surgical case volumes are projected to have a slight increase of 5.6% from 2024 but still below pre COVID numbers. Although we do anticipate higher volumes with the purchase of the DaVinci robot and contracting with a new Gastroenterologist provider, we did not increase the number of surgeries in the budget.
- The Rural Clinics were projected to remain the same number of visits as fiscal year 2024.
- Professional fees are projected to increase due to the newly acquired Gastroenterologist agreement and the three-year extension with fee increase for the Radiology group.
- The DPNF is budgeted for a full year. Expenses are based on prior historical data with average daily census consistent with prior fiscal year.



Report of Independent Auditors

The Board of Directors
Pioneers Memorial Healthcare District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pioneers Memorial Healthcare District, which comprise the statements of net position as of June 30, 2024 and 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pioneers Memorial Healthcare District as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements for California Special Districts*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pioneers Memorial Healthcare District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements for California Special Districts* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements for California Special Districts*, we:

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

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

Emphasis of Matter – State Assembly Bill 918

As discussed in Notes 1 and 12 to the financial statements, Pioneers Memorial Healthcare District is subject to dissolution due to state legislation. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.



Irvine, California

November 15, 2024

Financial Statements

Pioneers Memorial Healthcare District
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,932,019	\$ 13,326,240
Investments	19,098,972	3,523,609
Patient accounts receivable, net of allowances for doubtful accounts of \$5,728,206 in 2024 and \$4,977,190 in 2023	16,274,532	12,808,147
Supplemental funding receivable	24,746,940	19,243,877
Inventories	2,835,247	3,316,624
Estimated third-party payor settlements receivable	6,284,652	2,461,440
Prepaid expenses and deposits	1,953,513	2,077,178
Total current assets	<u>92,125,875</u>	<u>56,757,115</u>
RESTRICTED CASH AND INVESTMENTS		
HELD BY TRUSTEE FOR DEBT SERVICE AND OTHER	2,020,236	1,995,339
CAPITAL ASSETS, net of accumulated depreciation	<u>29,763,295</u>	<u>29,316,946</u>
LEASE RIGHT-OF-USE ASSETS AND SBITA ASSETS, net	<u>64,931,450</u>	<u>49,415,107</u>
Total assets	<u><u>\$ 188,840,856</u></u>	<u><u>\$ 137,484,507</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 5,545,531	\$ 3,494,091
Accounts payable and accrued expenses	14,327,638	11,513,147
Accrued payroll and related liabilities	6,362,356	5,358,973
Lease and SBITA liabilities, current	3,756,205	1,722,161
Employee healthcare self-insurance reserve	1,195,270	992,323
Total current liabilities	31,187,000	23,080,695
LEASE AND SBITA LIABILITIES, net of current portion	<u>62,267,845</u>	<u>48,170,072</u>
LONG-TERM DEBT, net of current maturities	<u>41,382,983</u>	<u>21,969,091</u>
Total liabilities	<u><u>134,837,828</u></u>	<u><u>93,219,858</u></u>
NET POSITION		
Invested in capital assets, net of related debt	10,834,781	3,853,764
Restricted, expendable for		
debt service and other purposes	40,959	37,063
Unrestricted	43,127,288	40,373,822
Total net position	<u>54,003,028</u>	<u>44,264,649</u>
Total liabilities and net position	<u><u>\$ 188,840,856</u></u>	<u><u>\$ 137,484,507</u></u>

See accompanying notes.

Pioneers Memorial Healthcare District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$10,792,858 in 2024 and \$9,927,393 in 2023)	\$ 157,855,611	\$ 125,713,863
Other	6,006,284	7,994,430
 Total operating revenues	<u>163,861,895</u>	<u>133,708,293</u>
OPERATING EXPENSES		
Salaries and wages	67,925,277	55,324,725
Supplies	19,139,619	17,666,840
Employee benefits	18,172,512	16,612,417
Professional fees	16,633,881	18,144,979
Purchased services	8,856,815	7,567,999
Repairs and maintenance	6,831,256	5,840,549
Registry and contract labor	3,378,616	5,819,699
Depreciation and amortization	3,355,376	3,572,981
Insurance	2,746,154	2,215,447
Building and equipment rent	4,496,631	3,601,946
Utilities	1,867,013	2,238,057
Other operating expenses	<u>3,681,553</u>	<u>3,433,350</u>
 Total operating expenses	<u>157,084,703</u>	<u>142,038,989</u>
OPERATING INCOME (LOSS)	<u>6,777,192</u>	<u>(8,330,696)</u>
NON-OPERATING REVENUES (EXPENSES)		
District tax revenues	1,645,836	3,335,792
Investment income	1,010,701	6,537
Interest expense	(666,822)	(698,621)
Contributions, net	447,195	544,014
Grant income	550,000	4,970,562
Other non-operating (expense) revenue	<u>(25,723)</u>	<u>765,276</u>
 Total non-operating revenues, net	<u>2,961,187</u>	<u>8,923,560</u>
CHANGE IN NET POSITION	<u>9,738,379</u>	<u>592,864</u>
NET POSITION		
Beginning of year	<u>44,264,649</u>	<u>43,671,785</u>
End of year	<u>\$ 54,003,028</u>	<u>\$ 44,264,649</u>

See accompanying notes.

Pioneers Memorial Healthcare District
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third parties on behalf of patients	\$ 150,566,014	\$ 125,436,846
Cash proceeds (recoupments) from operations, other than patient services	503,221	(9,151,586)
Cash payments to employees and benefit programs	(83,352,828)	(72,957,843)
Cash payments to suppliers and contractors	<u>(62,771,879)</u>	<u>(62,384,249)</u>
Net cash provided by (used in) operating activities	<u>4,944,528</u>	<u>(19,056,832)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipt of grants	550,000	4,970,562
Receipt of District taxes	1,411,584	1,461,056
Other non-operating activities	<u>(25,723)</u>	<u>765,276</u>
Net cash provided by non-capital financing activities	<u>1,935,861</u>	<u>7,196,894</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipt of District taxes related to debt service	234,252	1,872,735
Capital grants and contributions, net	447,195	544,014
Purchase of capital assets, net of disposals	(4,173,371)	(1,125,025)
Cash payments for property leases and SBITA liability	(2,015,460)	(992,084)
Interest payments on long-term debt	(666,822)	(698,621)
Principal payments on long-term debt	(6,510,845)	(2,567,873)
Proceeds from issuance of long-term debt, including premium	<u>28,000,000</u>	<u>6,726,232</u>
Net cash provided by capital and related financing activities	<u>15,314,949</u>	<u>3,759,378</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received from investments	1,010,701	6,537
Purchase of investments	(10,000,000)	(14,000,000)
Proceeds from sale of investments	(5,575,363)	28,089,005
Change in restricted cash	<u>(24,897)</u>	<u>(41,077)</u>
Net cash (used in) provided by investing activities	<u>(14,589,559)</u>	<u>14,054,465</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>7,605,779</u>	<u>5,953,905</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>13,326,240</u>	<u>7,372,335</u>
End of year	<u>\$ 20,932,019</u>	<u>\$ 13,326,240</u>
NONCASH CAPITAL AND RELATED FINANCING ACTITIVIES		
ROU lease assets exchanged for lease liabilities	\$ 1,693,197	\$ 28,173,568
SBITA assets exchanged for SBITA liabilities	\$ 16,454,080	\$ -

See accompanying notes.

Pioneers Memorial Healthcare District
Statements of Cash Flows (Continued)
Years Ended June 30, 2024 and 2023

	2024	2023
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ 6,777,192	\$ (8,330,696)
Adjustments to reconcile operating income (loss) to		
net cash provided by (used in) operating activities		
Depreciation and amortization	3,355,376	3,572,981
Loss on disposal of capital assets	371,646	-
Amortization of lease and SBITA right-of-use assets	2,630,934	1,377,007
Amortization of bond premium	(23,823)	(43,397)
Provision for bad debt	10,792,858	9,927,393
Changes in operating assets and liabilities		
Patient accounts receivable	(14,259,243)	(10,849,840)
Supplemental funding receivable	(5,503,063)	(8,033,438)
Inventories	481,377	203,518
Estimated third-party payor settlements receivable	(3,823,212)	645,430
Prepaid expenses and deposits	123,665	(158,127)
Accounts payable and accrued expenses	2,814,491	2,765,616
Accrued payroll and related liabilities	1,003,383	(1,085,885)
Employee healthcare self-insurance reserve	202,947	65,184
Medicare Accelerated Payment Program	-	(9,112,578)
Net cash provided by (used in) operating activities	<u>\$ 4,944,528</u>	<u>\$ (19,056,832)</u>

See accompanying notes.

Notes to Financial Statements

Note 1 – Reporting entity and State Assembly Bill 918

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.

State Assembly Bill 918 – On October 8, 2023, the Governor of California approved State Assembly Bill 918 which created the Imperial Valley Healthcare District (IVHD) and the Imperial County Local Agency Formation Commission (LAFCO). The bill requires the Imperial County LAFCO to dissolve the District and transfer the assets, liabilities, rights, and responsibilities of the District to the IVHD no later than January 1, 2025. See Note 12, Subsequent events.

Note 2 – Basis of Presentation and Accounting Policies

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

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 basis when earned and expenses are recognized when incurred.

Recent accounting pronouncements – GASB Statement No. 101, *Compensated Absences*, was issued in June 2022 and provides guidance on the accounting and financial reporting for compensated absences for government end users. This statement is effective for fiscal years beginning after December 15, 2023, and requires recognition of a liability for compensated absences to reflect when the obligation is incurred. The District is evaluating the impact this standard will have on future financial statements.

GASB Statement No. 102, *Certain Risk Disclosures*, was issued in December 2023 and requires governments to assess whether a concentration or constraint exists that would impact the issuers ability to operate or service debt. This statement is effective for fiscal years beginning after June 15, 2024, and is expected to have minimal impact on the future financial statements of the District.

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024 and provides improvements to key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement is effective for fiscal years beginning after June 15, 2025, and requires that MD&A be limited to five specific topics with detailed discussion and analysis over changes in results of operations. This statement is expected to have minimal impact on the future financial statements of the District.

Pioneers Memorial Healthcare District

Notes to Financial Statements

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 payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue during the collection period.

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 3.

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 net 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 \$2,259,000 and \$877,000 for the years ended June 30, 2024 and 2023, respectively.

District tax revenues – The District receives approximately 2% 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 Imperial County (the County) on the District's behalf during the year and are intended to help finance the District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. 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.

Pioneers Memorial Healthcare District

Notes to Financial Statements

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.

Restricted cash and investments – Restricted cash as of June 30, 2024 and 2023, was comprised of the following:

	<u>2024</u>	<u>2023</u>
Restricted for debt service	\$ 1,979,277	\$ 1,958,276
Other	<u>40,959</u>	<u>37,063</u>
	<u><u>\$ 2,020,236</u></u>	<u><u>\$ 1,995,339</u></u>

Restricted cash and investments represents assets held by bond trustees and in escrow accounts for debt service and as deposits.

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.

Depreciation expense and amortization of property and equipment under leases 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.

Pioneers Memorial Healthcare District

Notes to Financial Statements

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.

Leases – The District is a lessee for various noncancelable leases of buildings and equipment. For leases with a maximum possible term of 12 months or less at commencement, the District recognizes the expense based on the provisions of the lease contract. For all other leases, the District recognizes a lease liability.

At lease commencement, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into lease expense on a straight-line basis over the shorter of the lease terms or the useful life of the underlying asset. If the District is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Key estimates and judgments include how the District determines the discount rate it uses to calculate the present value of the expected lease, lease term and lease payments. The District generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor charges is known. The District's incremental borrowing rate for leases is based on the rate of interest it would pay for any amounts borrowed for capital projects.

The lease term includes the noncancelable period of the lease plus any additional periods covered by either a District or lessor option to extend for which it is reasonably certain to be exercised or terminate for which it is reasonably certain not to be exercised.

Payments are evaluated by the District to determine if they should be included in the measurement of the lease liability, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties and other payments.

The District monitors changes in circumstances that may require remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured, and a corresponding adjustment is made to the lease.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Subscription-based information technology arrangements (SBITAs) – The District is the end user for various SBITAs. Short-term SBITAs, which have a maximum possible term of 12 months or less, are recognized as an outflow of resources when payment is made. For SBITAs with subscription terms extending beyond one year, the District recognizes an intangible subscription asset and a corresponding subscription liability.

Initial measurement of the subscription asset/liability is calculated at the present value of payments expected to be paid during the subscription term, discounted using the incremental borrowing rate. The subscription asset is amortized on a straight-line basis over the subscription term.

There have been no outflows of resources recognized in the reporting periods for variable payments not previously included in the measurement of the SBITA liability, or other payments such as termination penalties.

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.

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 is 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.

Pioneers Memorial Healthcare District

Notes to Financial Statements

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 3 – 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:

	2024	2023
Medicare	\$ 23,299,011	\$ 23,465,193
Medi-Cal and Medi-Cal pending	34,296,562	32,457,018
Other third-party payors	22,632,280	19,078,091
Self-pay and other	9,191,425	5,169,836
Other government programs	66,273	121,371
Contractual allowances	<u>(67,482,813)</u>	<u>(62,506,172)</u>
 Patient accounts receivable	 22,002,738	 17,785,337
 Less allowances for doubtful accounts	 <u>(5,728,206)</u>	 <u>(4,977,190)</u>
 Net patient accounts receivable	 <u>\$ 16,274,532</u>	 <u>\$ 12,808,147</u>

Significant concentrations of gross patient accounts receivable as of June 30, 2024 and 2023, include Medicare, 25% and 29%, respectively; Medi-Cal, 39% and 40%, respectively; and other third-party payors, 20% and 24%, respectively.

Amounts written off to bad debt expense included in net patient service revenue totaled approximately \$10,793,000 and \$9,927,000 for the years ended June 30, 2024 and 2023, respectively.

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, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Medi-Cal – Medi-Cal payments for inpatient services are based upon case-based Diagnosis Related Groups. 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 and Medi-Cal cost reports for 2022 and 2023 are subject to audit and potential 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.

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.

Supplemental funding

Medi-Cal Managed Care Rate Range and Assembly Bill 113 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.

NDPH-IGT AB-113 – An IGT program that allows district/municipal public hospitals to draw down federal funds for fee-for-service Medi-Cal inpatient services. The amount of funds is based on the shortfall between payments received for treating Medi-Cal inpatients under the fee-for-service program and costs of treating those patients. The program is approved in perpetuity, but the amount of available funding must be approved periodically by Centers for Medicare and Medicaid Services (CMS).

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.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Senate Bill 1100 Medicaid Disproportionate Share Hospital (DSH) Program – The 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% with a MUR of at least 1% 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.

District Directed Payment Program – The District Hospital Directed Payment Program provides supplemental payments to each District and Municipal Public Hospital based upon contract Medi-Cal managed care utilization. The goal of the program is to increase access for Medi-Cal beneficiaries.

Quality Incentive Pool (QIP) program – The QIP program shares the goals of using evidence-based quality improvement methods to achieve performance targets and improve health outcomes for patients. All funding for this program is contingent on meeting these targets and demonstrating continued improvement. The District recognizes revenue from the QIP program when certainty of receiving the funds is reasonably assured.

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.

Supplemental funding receivables of approximately \$20,283,000 and \$10,508,000 as of June 30, 2024 and 2023, respectively, were comprised of receivables related to the District's participation in the PRIME/QIP program, payments to be received via IGT, QAF payments, and the Medi-Cal DSH program.

Pioneers Memorial Healthcare District
Notes to Financial Statements

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:

	<u>2024</u>	<u>2023</u>
Net Patient Service Revenue		
Managed Care Rate Range IGT	\$ 4,091,501	\$ 4,765,954
NDPH-IGT AB-113	1,259,968	1,075,018
QAF Supplemental Payment and QAF Managed Care Funds	3,044,240	1,524,092
Medicaid DSH Program	3,597,420	6,208,897
District Directed Payment Program	<u>6,000,000</u>	<u>3,000,000</u>
	17,993,129	16,573,961
Other Revenue		
QIP	<u>2,280,000</u>	<u>5,499,234</u>
	<u><u>\$ 20,273,129</u></u>	<u><u>\$ 22,073,195</u></u>

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, 2024 and 2023, the District held approximately \$66,000 and \$63,000 in LAIF, respectively.

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

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

Pioneers Memorial Healthcare District

Notes to Financial Statements

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% of total investments may be invested in the securities of any one issuer, except obligations of the U.S. government; no more than 10% may be invested in any one mutual fund; and no more than 30% 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, 2024 and 2023, the District had deposits invested in various financial institutions consisting of cash and cash equivalents and restricted cash, which amounted to approximately \$20,932,000 and \$3,348,000, 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% 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% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

Custodial credit risk – investments – Investments in any one issuer (other than U.S. Treasury securities and external investment pools) that represent 5% or more of the total investments as of June 30, 2024 and 2023, are as follows:

Investment type	2024		2023	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
U.S. government bonds	\$ 11,803,921	56%	\$ 2,293,887	42%
Corporate bonds	\$ 5,875,568	28%	\$ 449,436	8%
Money market mutual funds	\$ 3,055,453	14%	\$ 2,407,472	44%
Municipal bonds	\$ -	0%	\$ 304,675	6%

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

Pioneers Memorial Healthcare District
Notes to Financial Statements

The District had investments by type and maturity as follows:

Investment type	June 30, 2024		
	Fair Value	Investment Maturities (in Years)	
		Less than 1	1–5
Money market mutual funds	\$ 3,055,453	\$ 3,055,453	\$ -
Local Agency Investment Fund	65,749	65,749	-
U.S. government bonds	11,252,768	1,178,058	10,074,710
Municipal bonds	318,517	318,517	-
Corporate bonds	5,875,568	285,150	5,590,418
Held by trustee			
U.S. government bonds	551,153	551,153	-
	<hr/> <u>\$ 21,119,208</u>	<hr/> <u>\$ 5,454,080</u>	<hr/> <u>\$ 15,665,128</u>
June 30, 2023			
Investment type	Investment Maturities (in Years)		
	Fair Value	Less than 1	
		1–5	1–5
Money market mutual funds	\$ 2,407,472	\$ 2,407,472	\$ -
Local Agency Investment Fund	63,478	63,478	-
U.S. government bonds	1,663,202	-	1,663,202
Municipal bonds	304,675	-	304,675
Corporate bonds	449,436	174,218	275,218
Held by trustee			
U.S. government bonds	630,685	630,685	-
	<hr/> <u>\$ 5,518,948</u>	<hr/> <u>\$ 3,275,853</u>	<hr/> <u>\$ 2,243,095</u>

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

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

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

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

Pioneers Memorial Healthcare District
Notes to Financial Statements

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

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

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

	Fair Market Value as of June 30, 2024			
	Total	Level 1	Level 2	Level 3
Investments				
Money market mutual funds	\$ 3,055,453	\$ 3,055,453	\$ -	\$ -
Local Agency Investment Fund	65,749	-	65,749	-
U.S. government bonds	11,252,768	-	11,252,768	-
Municipal bonds	318,517	-	318,517	-
Corporate bonds	5,875,568	-	5,875,568	-
Held by trustee				
U.S. government bonds	<u>551,153</u>	-	<u>551,153</u>	-
	<u><u>\$ 21,119,208</u></u>	<u><u>\$ 3,055,453</u></u>	<u><u>\$ 18,063,755</u></u>	<u><u>\$ -</u></u>
Fair Market Value as of June 30, 2023				
	Total	Level 1	Level 2	Level 3
Investments				
Money market mutual funds	\$ 2,407,472	\$ 2,407,472	\$ -	\$ -
Local Agency Investment Fund	63,478	-	63,478	-
U.S. government bonds	1,663,202	-	1,663,202	-
Municipal bonds	304,675	-	304,675	-
Corporate bonds	449,436	-	449,436	-
Held by trustee				
U.S. government bonds	<u>630,685</u>	-	<u>630,685</u>	-
	<u><u>\$ 5,518,948</u></u>	<u><u>\$ 2,407,472</u></u>	<u><u>\$ 3,111,476</u></u>	<u><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, 2023	Additions	Retirements	Transfers	Balance as of June 30, 2024
Land and land improvements	\$ 2,623,522	\$ -	\$ -	\$ -	\$ 2,623,522
Buildings and improvements	63,472,232	-	(553,091)	-	62,919,141
Equipment	59,457,988	2,348,450	-	1,397,144	63,203,582
Construction in progress	<u>338,532</u>	<u>1,824,921</u>	<u>-</u>	<u>(1,397,144)</u>	<u>766,309</u>
Totals at historical cost	<u>125,892,274</u>	<u>4,173,371</u>	<u>(553,091)</u>	<u>-</u>	<u>129,512,554</u>
Less: accumulated depreciation for					
Land and land improvements	(554,507)	(51,416)	-	-	(605,923)
Buildings and improvements	(42,749,042)	(1,439,059)	181,445	-	(44,006,656)
Equipment	<u>(53,271,779)</u>	<u>(1,864,901)</u>	<u>-</u>	<u>-</u>	<u>(55,136,680)</u>
Total accumulated depreciation	<u>(96,575,328)</u>	<u>(3,355,376)</u>	<u>181,445</u>	<u>-</u>	<u>(99,749,259)</u>
Capital assets, net	<u>\$ 29,316,946</u>	<u>\$ 817,995</u>	<u>\$ (371,646)</u>	<u>\$ -</u>	<u>\$ 29,763,295</u>
	Balance as of June 30, 2022	Additions	Retirements	Transfers	Balance as of June 30, 2023
Land and land improvements	\$ 2,623,522	\$ -	\$ -	\$ -	\$ 2,623,522
Buildings and improvements	61,523,761	59,610	-	1,888,861	63,472,232
Equipment	59,489,755	620,590	(652,357)	-	59,457,988
Construction in progress	<u>1,782,568</u>	<u>444,825</u>	<u>-</u>	<u>(1,888,861)</u>	<u>338,532</u>
Totals at historical cost	<u>125,419,606</u>	<u>1,125,025</u>	<u>(652,357)</u>	<u>-</u>	<u>125,892,274</u>
Less: accumulated depreciation for					
Land and land improvements	(503,202)	(51,305)	-	-	(554,507)
Buildings and improvements	(41,334,117)	(1,414,925)	-	-	(42,749,042)
Equipment	<u>(51,819,386)</u>	<u>(2,106,751)</u>	<u>652,357</u>	<u>-</u>	<u>(53,271,779)</u>
Total accumulated depreciation	<u>(93,656,705)</u>	<u>(3,572,981)</u>	<u>652,357</u>	<u>-</u>	<u>(96,575,328)</u>
Capital assets, net	<u>\$ 31,762,901</u>	<u>\$ (2,447,956)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,316,946</u>

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, 2023	Additions	Payments and Reductions	Balance as of June 30, 2024	Due Within 1 Year
2017 Bonds	\$ 14,555,000	\$ -	\$ (305,000)	\$ 14,250,000	\$ 320,000
2004 Bonds	450,000	-	(220,000)	230,000	230,000
CHFFA NDPH Loans	6,715,689	-	(3,016,754)	3,698,935	3,766,770
DHLP	-	28,000,000	-	28,000,000	1,037,036
Other advances and loans	3,160,816	-	(2,969,091)	191,725	191,725
Unamortized bond premium related to 2017 Bonds	581,677	-	(23,823)	557,854	-
	\$ 25,463,182	\$ 28,000,000	\$ (6,534,668)	\$ 46,928,514	\$ 5,545,531
	Balance as of June 30, 2022	Additions	Payments and Reductions	Balance as of June 30, 2023	Due Within 1 Year
2017 Bonds	\$ 14,845,000	\$ -	\$ (290,000)	\$ 14,555,000	\$ 305,000
2012 Bonds	1,600,000	-	(1,600,000)	-	-
2004 Bonds	660,000	-	(210,000)	450,000	220,000
CHFFA NDPH Loans	2,986,587	3,729,102	-	6,715,689	-
Other advances and loans	631,559	2,997,130	(467,873)	3,160,816	2,969,091
Unamortized bond premium related to 2017 Bonds	605,500	-	(23,823)	581,677	-
Unamortized bond premium related to 2012 Bonds	19,574	-	(19,574)	-	-
	\$ 21,348,220	\$ 6,726,232	\$ (2,611,270)	\$ 25,463,182	\$ 3,494,091

General obligation and revenue bonds – On December 14, 2017, the District issued \$16,354,690 of the District Revenue Bonds Series 2017 (the 2017 Bonds). The 2017 Bonds bear interest at rates between 3% to 4%, 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.

On September 26, 2012, the District refinanced the 1998 General Obligation Bonds with the 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%, with interest payments due semi-annually. The 2012 Bonds matured 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 was amortized over the life of the 2012 Bonds. The 2012 Bonds were issued at a premium totaling \$782,950, which was amortized over the life of the 2012 Bonds.

Pioneers Memorial Healthcare District

Notes to Financial Statements

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% 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 2004 Bonds and 2012 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 2004 Bonds and 2012 Bonds, amounted to approximately \$234,000 and \$1,874,000 for the years ended June 30, 2024 and 2023, 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 has accumulated additional tax collections under this arrangement in the amount of approximately \$511,000 and \$594,000 as of June 30, 2024 and 2023, respectively. These amounts have been recorded as deferred property tax revenues and are included in accounts payable and accrued expenses for each respective year.

California Health Facilities Financing Authority (CHFFA) Nondesignated Public Hospital Bridge Loan Program (NDPH Program) – The NDPH Program enables the CHFFA to issue up to a total of \$40 million in zero interest working capital loans to eligible nondesignated public hospitals that are affected by financial delays associated with the transition from the Prime Program to the QIP Program. These loans are secured by the District's Medi-Cal reimbursements and are required to be repaid within two years of their issuance date. The District received two separate loans totaling approximately \$2,987,000 during the year ended June 30, 2022, and received one loan totaling approximately \$3,729,000 during the year ended June 30, 2023. Payments, including 1% administration fee of approximately \$1,527,000, and \$1,490,000 were due and paid in February 2024 and April 2024, respectively. A payment of approximately \$3,766,000 is due in January 2025 and is classified within current portion of long-term debt as of June 30, 2024.

California Distressed Hospital Loan Program (DHLP) – The District applied for and received a \$28,000,000 loan from DHLP, which was funded in November 2023. This loan provides relief with interest-free loans to California's not-for-profit and public hospitals experiencing financial distress or at risk of closure. The loan is a 0% interest loan with a term of 72 months, and an initial 18 month deferment period at the beginning of the term loan. Monthly principal payments of approximately \$519,000 are scheduled to begin in May 2025.

Pioneers Memorial Healthcare District
Notes to Financial Statements

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

Years Ending June 30,	Principal	Interest	Premium
2025	\$ 5,545,531	\$ 648,817	\$ 23,823
2026	6,557,222	641,551	23,823
2027	6,577,222	608,965	23,823
2028	6,592,222	590,717	23,823
2029	6,612,222	571,550	23,823
2030–2034	4,234,075	2,663,500	119,115
2035–2039	2,780,000	2,049,750	119,115
2040–2044	3,555,000	1,274,675	119,115
2045–2049	<u>3,917,166</u>	<u>451,500</u>	<u>81,394</u>
	<u><u>\$ 46,370,660</u></u>	<u><u>\$ 9,501,025</u></u>	<u><u>\$ 557,854</u></u>

The District incurred approximately \$667,000 and \$699,000 in interest during the years ended June 30, 2024 and 2023, respectively, on all debt, including general obligation bonds. The District recognized approximately \$24,000 and \$43,000 of amortization related to the bond premium during the years ended June 30, 2024 and 2023, respectively.

As part of the Series 2017 Bond Issue, the District must maintain certain covenants pertaining to liquidity (days cash on hand) and profitability (debt service coverage ratio). The District is in compliance with the covenants as of June 30, 2024.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Note 7 – Leases and SBITA

Leases – The District leases certain facilities under lease arrangements. A summary of the lease asset and liability activity for the years ended June 30, 2024 and 2023, is as follows:

	Balance as of June 30, 2023	Additions	Deletions	Balance as of June 30, 2024	Amounts due within one year
Right-of-use assets					
Building	\$ 51,821,600	\$ -	\$ -	\$ 51,821,600	
Equipment	- -	1,693,197	- -	1,693,197	
Less: accumulated depreciation					
Building	(2,406,493)	(2,244,247)	- -	(4,650,740)	
Equipment	- -	(117,709)	- -	(117,709)	
Total lease right-of-use assets, net	<u>\$ 49,415,107</u>	<u>\$ (668,759)</u>	<u>\$ -</u>	<u>\$ 48,746,348</u>	
Leases liabilities	<u>\$ 49,892,233</u>	<u>\$ 1,693,197</u>	<u>\$ (1,746,482)</u>	<u>\$ 49,838,948</u>	<u>\$ 2,098,000</u>
	Balance as of June 30, 2022	Additions	Deletions	Balance as of June 30, 2023	Amounts due within one year
Right-of-use assets					
Building	\$ 23,648,032	\$ 28,173,568	\$ -	\$ 51,821,600	
Less: accumulated depreciation					
Building	(1,029,486)	(1,377,007)	- -	(2,406,493)	
Total lease right-of-use assets, net	<u>\$ 22,618,546</u>	<u>\$ 26,796,561</u>	<u>\$ -</u>	<u>\$ 49,415,107</u>	
Leases liabilities	<u>\$ 22,710,749</u>	<u>\$ 28,173,568</u>	<u>\$ (992,084)</u>	<u>\$ 49,892,233</u>	<u>\$ 1,722,161</u>

For the years ended June 30, 2024 and 2023, the District recognized \$3,298,000 and \$1,466,000, respectively, in amortization expense included in building and equipment rent expense on the statements of revenues, expenses, and changes in net position.

Future annual lease payments are as follows:

Years Ending June 30,	Principal	Interest
2025	\$ 2,098,000	\$ 1,521,931
2026	2,323,953	1,455,578
2027	2,001,952	1,379,805
2028	2,138,861	1,314,255
2029	2,069,295	1,244,234
2030-2034	11,343,985	5,290,161
2035-2039	13,947,778	3,437,684
2040-2044	11,511,586	1,259,035
2045-2047	<u>2,403,538</u>	<u>144,508</u>
	<u>\$ 49,838,948</u>	<u>\$ 17,047,191</u>

Pioneers Memorial Healthcare District

Notes to Financial Statements

SBITA – A summary of the SBITA asset activity during the years ended June 30, 2024 and 2023, is as follows:

	Balance as of June 30, 2023	Additions	Deductions	Balance as of June 30, 2024	Amounts due within one year
SBITA assets - software	\$ -	\$ 16,454,080	\$ -	\$ 16,454,080	
Less: accumulated amortization	<u>-</u>	<u>(268,978)</u>	<u>-</u>	<u>(268,978)</u>	
Total SBITA assets, net	<u>\$ -</u>	<u>\$ 16,185,102</u>	<u>\$ -</u>	<u>\$ 16,185,102</u>	
SBITA Liabilities	<u>\$ -</u>	<u>\$ 16,454,080</u>	<u>\$ (268,978)</u>	<u>\$ 16,185,102</u>	<u>\$ 1,658,205</u>

A schedule of future minimum SBITA payments are as follows:

Years Ending June 30,	Principal	Interest
2025	\$ 1,658,205	\$ 716,019
2026	1,736,803	637,421
2027	1,819,127	555,097
2028	1,905,353	468,871
2029	1,995,666	378,558
2030-2034	<u>7,069,948</u>	<u>553,457</u>
	<u><u>\$ 16,185,102</u></u>	<u><u>\$ 3,309,423</u></u>

Note 8 – 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 District 457 Plan. The District provides ongoing matching contributions of up to 5.5% 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. During the years ended June 30, 2024 and 2023, the District's expense to fund its share of the 401(a) plan was approximately \$1,367,000 and \$1,579,000, 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.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Note 9 – Commitments and Contingencies

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, 2024, will be resolved without material adverse effect on the District's future financial position, results of operations, or cash flows.

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 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, 2024 and 2023, these amounts were estimated at approximately \$1,195,000 and \$992,000, respectively, included as employee healthcare self-insurance reserves on the accompanying statements of net position.

Workers' compensation program – The District is a participant in the Association of California Hospital Districts' BETA 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 \$405,000 as of June 30, 2024 and 2023. 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 June 30, 2022	\$ 405,000
Additions	-
 BALANCE, as of June 30, 2023	 405,000
Additions	-
 BALANCE, as of June 30, 2024	 <u>\$ 405,000</u>

Pioneers Memorial Healthcare District

Notes to Financial Statements

Health Insurance Portability and Accountability Act – The Health Insurance Portability and Accountability Act 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.

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.

Medicare advance payments – In September 2020, the District received approximately \$14,800,000 from Medicare under the COVID-19 Accelerated Payment Program, administered by the CMS. Recoupment began in September 2021. The full amounts have been recouped as of June 30, 2023.

Note 10 – 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 IRC 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 \$378,000 and \$328,000 for the years ended June 30, 2024 and 2023, 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 \$67,000 and \$5,000 for the years ended June 30, 2024 and 2023, respectively.

Pioneers Memorial Healthcare District

Notes to Financial Statements

Note 11 – Seismic Issues

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

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 12 – Subsequent Events

Effective October 24, 2024, pursuant to State Assembly Bill 918, the Imperial County LAFCO voted to dissolve the District, however, the District remains in existence while various legal appeals are heard by the court. As of November 15, 2024, there has been no final verdict.

