

# San Geronio Healthcare District

Financial Statements and Supplemental  
Information

Year Ended June 30, 2020

**WIPFLI**

# San Geronio Healthcare District

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DRAFT - FOR DISCUSSION PURPOSES ONLY

## **Independent Auditor's Report**

Board of Directors  
San Gorgonio Healthcare District  
Banning, CA

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

We have audited the accompanying financial statements of San Gorgonio Healthcare District (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of San Geronio Healthcare District, as of June 30, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

## **Other Matters**

### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated "REPORT DATE", on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Wipfli LLP

"REPORT DATE"  
Oakland, California

# San Gorgonio Healthcare District

## Statement of Net Position

<i>June 30,</i>	2020
<b>Current assets:</b>	
Cash and cash equivalents:	
Unrestricted	\$ 11,938,600
Restricted, available for current debt service	955,807
Receivables:	
Patient accounts - Net	7,142,879
Other accounts receivable	13,293,537
Inventories	1,789,075
Prepaid expenses and other	288,583
<b>Total current assets</b>	<b>35,408,481</b>
<b>Noncurrent assets:</b>	
Capital assets - Nondepreciable	998,204
Capital assets - Net of accumulated depreciation	82,436,721
Cash and cash equivalents - Restricted, net of amount available for current debt service	8,880,833
Cash and cash equivalents - Board designated	424,176
Beneficial interest in the net assets of San Gorgonio Hospital Foundation	496,107
<b>Total noncurrent assets</b>	<b>93,236,041</b>
<b>Deferred outflows of resources - Loss on bond refunding</b>	<b>759,389</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 129,403,911</b>

# San Geronio Healthcare District

## Statement of Net Position (Continued)

<i>June 30,</i>	2020
<b>Current liabilities:</b>	
Current portion of long-term debt	\$ 2,335,000
Accounts payable	5,316,508
Accrued salary, payroll taxes, and benefits	4,124,703
Third-party payor settlements	2,435,348
Current portion of refundable advance	322,211
Line of credit	6,000,000
Accrued interest	2,020,229
<b>Total current liabilities</b>	<b>22,553,999</b>
<b>Noncurrent liabilities:</b>	
Long-term debt, less current portion	108,192,847
Refundable advance, less current portion	2,255,479
<b>Total noncurrent liabilities</b>	<b>110,448,326</b>
<b>Total liabilities</b>	<b>133,002,325</b>
<b>Net position:</b>	
Net investment in capital assets	(17,256,282)
Restricted	9,836,640
Unrestricted	3,821,228
<b>Total net position</b>	<b>(3,598,414)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 129,403,911</b>

# San Gorgonio Healthcare District

## Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30,	2020
<b>Operating revenue:</b>	
Net patient service revenue	\$ 58,724,550
Other operating income	1,762,890
Total operating revenue	60,487,440
<b>Operating expenses:</b>	
Salaries and wages	37,250,689
Employee benefits	9,032,491
Legal and professional fees	4,851,019
Contract labor	714,190
Supplies	9,012,301
Utilities	968,157
Purchased service	5,596,307
Building and equipment rent	950,799
Depreciation and amortization	6,077,964
Other operating expense	6,837,922
Total operating expenses	81,291,839
Loss from operations	(20,804,399)
<b>Nonoperating revenue (expenses):</b>	
Taxes	11,537,473
Grants, contributions, and other nonoperating revenue	8,156,107
Interest expense	(5,065,130)
Total nonoperating revenue	14,628,450
Deficit in revenue over expenses	(6,175,949)
Impairment loss on capital assets	(8,274,886)
Capital grants and contributions	52,112
Decrease in net position	(14,398,723)
Net position - Beginning of year, as previously reported	11,490,596
Restatement - Change in accounting principle	(690,287)
Net position - End of year	\$ (3,598,414)



# San Gorgonio Healthcare District

## Statement of Cash Flows

<i>Year Ended June 30,</i>	2020
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 62,288,797
Receipts from other operating revenue	697,468
Payments to employees	(45,210,146)
Payments to suppliers, contractors, and others	(28,727,118)
<b>Net cash used in operating activities</b>	<b>(10,950,999)</b>
Cash flows from noncapital financing activities:	
Taxation for debt service	11,537,473
Cash received from grants and stimulus funding	10,733,797
Beneficial interest in San Gorgonio Hospital Foundation	150,092
<b>Net cash provided by noncapital financing activities</b>	<b>22,421,362</b>
Cash flows from capital and related financing activities:	
Proceeds from line of credit	12,000,000
Payments on line of credit	(6,000,000)
Principal payments on debt	(2,306,366)
Interest paid on debt	(5,075,724)
Purchase of capital assets	(787,309)
Cash received from capital grants and contributions	52,112
<b>Net cash used in capital and related financing activities</b>	<b>(2,117,287)</b>
Net increase in cash and cash equivalents	9,353,076
Cash and cash equivalents - Beginning of year	12,846,340
<b>Cash and cash equivalents - End of year</b>	<b>\$ 22,199,416</b>

# San Geronio Healthcare District

## Statement of Cash Flows (Continued)

<i>Year Ended June 30,</i>	2020
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (20,804,399)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation	6,077,964
Provision for bad debt	(1,600)
Change in assets and liabilities:	
Patient accounts receivable	1,308,659
Other accounts receivable	(1,065,422)
Third-party payor settlements	2,257,188
Inventories	(120,219)
Prepaid expenses and other	64,664
Accounts payable	259,132
Accrued salary, payroll taxes, and benefits	1,073,034
Total adjustments	9,853,400
Net cash used in operating activities	\$ (10,950,999)

# San Gorgonio Healthcare District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Reporting Entity

San Gorgonio Healthcare District (the "District") was organized in 1944 under the terms of the Local Health Care District Law and is operated and governed by five elected directors. The District includes a 79-bed acute care facility that provides inpatient, outpatient, primary care clinic, and emergency care services in Banning, California, and its surrounding area.

San Gorgonio Memorial Hospital (the "Hospital") is a nonprofit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Hospital provides healthcare services primarily to individuals who reside in the geographic boundaries of the District under a lease agreement with the District. The Hospital is governed by a nine-member Board of Directors. All of the District board members are also members of the Hospital board. For this reason, the Hospital is a blended component unit of the District.

#### Basis of Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States for establishing governmental accounting and financial reporting principles. The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements have been met. Unbilled hospital services receivable are recorded at year-end.

#### Use of Estimates

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

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

#### Cash and Cash Equivalents

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

# San Geronio Healthcare District

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Patient Accounts Receivable and Credit Policy**

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

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

In evaluating the collectibility of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

# San Gorgonio Healthcare District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Property Taxes

The District received approximately 16.81% of its financial support from property taxes in the year ended June 30, 2020.

Property taxes are levied by the District and collected by the Riverside County Treasurer for operations and for debt service obligations. Taxes estimated to be collectible are recorded as revenue in the year of the levy. No allowance for doubtful taxes receivable is considered necessary. Taxes levied are recorded as nonoperating revenue. The taxes are levied on July 1 each year and are intended to finance the District's activities of the same fiscal year. Amounts levied are based on assessed property values as of September 30 each year.

The funds used to support operations and for debt service were \$7,666,352 and \$3,871,121, respectively, for the year ended June 30, 2020.

#### Inventories

Inventories are valued at the lower of cost, determined on the first-in, first-out method, or net realizable value. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

#### Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents includes certain cash and other assets whose use is limited under debt instruments, by donors, and by grant and service contracts.

#### Capital Assets and Depreciation

Capital asset acquisitions exceeding \$5,000 are capitalized and recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 years
Buildings and building improvements	5 to 40 years
Equipment, computers, and furniture	3 to 20 years

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets.

# San Gorgonio Healthcare District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, 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 on the event or circumstance in which the impairment occurred. Impairment losses are recorded in the statement of revenues, expenses, and changes in net position. Impairment loss recorded for the year ended June 30, 2020, was \$8,274,886.

#### Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense) until then. The District has only one item that qualifies for reporting in this category, the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

#### Compensated Absences

The District's employees earn paid time off (PTO) benefits at varying rates depending on years of service and the number of hours worked. PTO benefits can accumulate up to specified maximum levels. Employees are paid for PTO accumulated benefits upon separation.

The District considers compensated absence liabilities to be a current liability of the District. These obligations are expected to be liquidated with current assets.

# San Gorgonio Healthcare District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Net Position

Net position is reported in three categories:

*Net investment in capital assets* - This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build, acquire, or improve those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category.

*Restricted* - This category consists of noncapital assets whose use is restricted, reduced by liabilities and deferred inflows of resources related to those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, donors, grantors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* - This category consists of the remaining net position that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first.

#### Operating Revenue and Expenses

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

#### Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amount from patients, governmental programs, health maintenance, and preferred provider organizations and insurance contracts under applicable laws, regulations, and program instructions. Net realizable amounts are generally less than the District's established rates. Final determination of certain amounts payable is subject to audit by appropriate third-party representatives. Subsequent adjustments, if any, arising from such audits are recorded in the year the final settlement becomes known.

# San Geronio Healthcare District

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Charity Care

The District provides care to patients who meet certain criteria under its charity care (financial assistance) policy without charge or according to a sliding scale based on income. The District maintains records to identify and monitor the level of charity care provided.

#### Grants and Contributions

From time to time, the District receives grants from the federal government and the State of California as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue in the year received.

Gifts, grants, and bequests restricted by donors for specific purposes are recorded as restricted net position and transferred to unrestricted net position when amounts are expended for their restricted purpose. When restricted funds are used for operations, these amounts are reflected in the statement of revenues, expenses, and changes in net position as other operating revenue.

#### Advertising Costs

Advertising costs are expensed as incurred.

#### Subsequent Events

Subsequent events have been evaluated through "REPORT DATE", which is the date the financial statements were available to be issued.

### Note 2: Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts are insured by the FDIC up to \$250,000 for demand deposits and an additional \$250,000 for time deposits per insured institution.

*Credit risk* - The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization.

*Concentration of credit risk* - The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer).

*Interest rate risk* - The possibility that an interest rate change could adversely affect an investment's fair value.



# San Geronio Healthcare District

## Notes to Financial Statements

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### Note 2: Cash and Cash Equivalents (Continued)

*Custodial credit risk* - The risk that in an event of a bank failure the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first deed of mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

At June 30, 2020, the District had a bank balance of \$22,831,104. Of this balance, \$1,500,000 was covered by federal deposit insurance, and \$12,826,260 was collateralized (i.e., with securities held by the pledging financial institutions of at least 110% of the District's cash deposits, in accordance with the California Government Code).

Cash and cash equivalents consisted of the following:

<i>June 30,</i>	2020
Demand deposits	\$ 22,190,140
Cash on hand	4,448
Local government investment pool	4,828
<b>Total cash and cash equivalents</b>	<b>\$ 22,199,416</b>

The composition of cash and cash equivalents consisted of the following:

<i>June 30,</i>	2020
Current:	
Unrestricted cash and cash equivalents	\$ 11,938,600
Restricted for debt service	955,807
Noncurrent:	
Restricted for debt service, net of amount currently available for debt service	8,880,833
Unrestricted board designated	424,176
<b>Total</b>	<b>\$ 22,199,416</b>

# San Geronio Healthcare District

## Notes to Financial Statements

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### Note 2: Cash and Cash Equivalents (Continued)

#### Restricted for Debt Service

County deposits held in trust for debt service payments.

#### Board Designated Held for Capital Projects and Equipment

Capital project funds are funded with bond proceeds and consist of assets restricted to fund future construction of capital assets.

### Note 3: Patient Accounts Receivable - Net

Patient accounts receivable - net consisted of the following:

<i>June 30,</i>	2020
Patient receivables:	
Medicare	\$ 17,665,666
Medicaid	9,165,985
Commercial and other	12,183,351
Self-pay	5,221,847
Total patient receivable	44,236,849
Less:	
Contractual adjustments	32,262,162
Allowance for uncollectible amounts	4,831,808
Patient accounts receivable - Net	\$ 7,142,879

# San Gorgonio Healthcare District

## Notes to Financial Statements

### Note 4: Capital Assets

Capital assets consisted of the following:

	Balance July 1, 2019	Additions	Retirements	Transfers	Balance June 30, 2020
<b>Nondepreciable capital assets:</b>					
Land	\$ 874,391	\$ 7,369	\$ -	\$ -	\$ 881,760
Construction in progress	8,390,250	1,079	(8,274,885)	-	116,444
<b>Total nondepreciable capital assets</b>	<b>9,264,641</b>	<b>8,448</b>	<b>(8,274,885)</b>	<b>-</b>	<b>998,204</b>
<b>Depreciable capital assets:</b>					
Land improvements	2,773,975	141	-	-	2,774,116
Buildings and improvements	122,338,069	5,397	(7,790)	-	122,335,676
Equipment	33,704,995	773,323	-	-	34,478,318
<b>Total depreciable capital assets</b>	<b>158,817,039</b>	<b>778,861</b>	<b>(7,790)</b>	<b>-</b>	<b>159,588,110</b>
<b>Total capital assets before depreciation</b>	<b>168,081,680</b>	<b>787,309</b>	<b>(8,282,675)</b>	<b>-</b>	<b>160,586,314</b>
<b>Less accumulated depreciation</b>	<b>(71,081,215)</b>	<b>(6,077,964)</b>	<b>7,790</b>	<b>-</b>	<b>(77,151,389)</b>
<b>Capital assets - Net</b>	<b>\$ 97,000,465</b>	<b>\$ (5,290,655)</b>	<b>\$ (8,274,885)</b>	<b>\$ -</b>	<b>\$ 83,434,925</b>

# San Geronio Healthcare District

## Notes to Financial Statements

### Note 5: Long-Term Debt Obligations

Long-term debt obligations consisted of the following:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
Long-term debt:					
Direct borrowings and direct placements:					
GO Refunding Bonds 2013	\$ 22,955,000	\$ -	\$ (560,000)	\$ 22,395,000	\$ 620,000
GO Refunding Bonds 2014	61,275,000	-	(1,125,000)	60,150,000	1,245,000
GO Refunding Bonds 2015	24,430,000	-	(410,000)	24,020,000	470,000
Premium - 2013 Series	246,341	-	(14,420)	231,921	-
Premium - 2014 Series	3,403,898	-	(169,489)	3,234,409	-
Premium - 2014 Series	523,974	-	(27,457)	496,517	-
<b>Total long-term debt</b>	<b>\$ 112,834,213</b>	<b>\$ -</b>	<b>\$ (2,306,366)</b>	<b>\$ 110,527,847</b>	<b>\$ 2,335,000</b>

The terms of the District's long-term obligations are as follows:

- General Obligation Refunding Bonds, Series 2013; principal due each August 1 at various amounts through August 1, 2036; interest is variable at 3%-5%, due semiannually each August 1 and February 1; collateralized by property tax revenue.
- General Obligation Refunding Bonds, Series 2014; principal due each August 1 at various amounts through August 1, 2038; interest is variable at 3%-5%, due semiannually each August 1 and February 1; collateralized by property tax revenue.
- General Obligation Refunding Bonds, Series 2015; principal due each August 1 at various amounts through August 1, 2038; interest is variable at 3%-5%, due semiannually each August 1 and February 1; collateralized by property tax revenue.

# San Gorgonio Healthcare District

## Notes to Financial Statements

### Note 5: Long-Term Debt Obligations (Continued)

Scheduled principal and interest payments on long-term obligation are as follows:

Years Ending June 30,	Bonds and Notes Payable		
	Principal	Interest	Total
2021	\$ 2,335,000	\$ 7,130,625	\$ 9,465,625
2022	2,590,000	7,270,600	9,860,600
2023	2,875,000	7,421,625	10,296,625
2024	3,180,000	7,575,250	10,755,250
2025	3,500,000	7,738,250	11,238,250
2026-2030	22,725,000	32,510,141	55,235,141
2031-2035	33,035,000	52,721,147	85,756,147
2036-2040	36,325,000	40,133,619	76,458,619
<b>Totals</b>	<b>\$ 106,565,000</b>	<b>\$ 162,501,257</b>	<b>\$ 269,066,257</b>

Bond premium amortization in the amount of \$211,366 was recognized for the year ended June 30, 2020. The annual amortization of the bond premium will result in reductions in interest expense as follows:

Years Ending June 30,	
2021	\$ 211,366
2022	211,366
2023	211,366
2024	211,366
2025	211,366
2026-2030	1,056,830
2031-2035	1,056,830
2036-2040	792,357
<b>Total</b>	<b>\$ 3,962,847</b>

### Note 6: Line of Credit

The District maintains a line of credit with Pacific Premier Bank in the amount of \$6,000,000 with interest at 4.25%. The line of credit matures February 1, 2022. The line of credit is collateralized by receivables and capital assets.

# San Geronio Healthcare District

## Notes to Financial Statements

### Note 7: Patient Service Revenue

Patient service revenue consisted of the following:

<i>June 30,</i>	2020
Gross patient service revenue:	
Inpatient	\$ 88,815,381
Outpatient	181,056,580
Total	269,871,961
Less:	
Contractual adjustments	202,612,851
Provision for bad debts	8,534,560
Net patient service revenue	\$ 58,724,550

Included within contractual adjustments above is a DSH overpayment resulting in a contractual adjustment of \$1,806,957.

The following table reflects the percentage of gross patient service revenue by payor source:

<i>Year Ended June 30,</i>	2020
Medicare	12 %
Medicaid	40 %
Blue Cross	5 %
Other third-party payors	41 %
Self-pay	2 %
Total	100 %

# San Geronio Healthcare District

## Notes to Financial Statements

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### **Note 8: Intergovernmental Transfer Program**

The District participates in the intergovernmental transfer (IGT) program and other related supplemental programs sponsored by the State of California for the state's local healthcare districts. These programs are an integral part of the overall Quality Assurance Fee programs, supported by funding from the federal government. IGT and related program revenue, net of related expenses, for the year ended June 30, 2020, was \$12,574,110 and is recorded as a reduction to contractual adjustments in the statement of revenue, expenses, and changes in net position.

### **Note 9: Charity Care**

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

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

Gross charges related to patients under the District's charity care policy was \$1,038,200 during the year ended June 30, 2020.

### **Note 10: Retirement Plan**

The District offers a tax-sheltered annuity (TSA) program covering substantially all employees with at least 90 days of service. Matching contributions are made at the discretion of the District's management and are based on a percentage of gross salary. District contributions to the TSA program were \$1,125,639 during the year ended June 30, 2020.

### **Note 11: Risk Management**

#### **Liability Insurance**

The District has its professional liability insurance coverage with Beta Risk Management Authority ("Beta"). The policy provides protection on a "claims made" basis whereby malpractice claims related to services provided in the current year are covered by the current policy.

Coverage is provided a policy with limits of \$20,000,000 for each medical incident and a \$30,000,000 annual aggregate limit.

# San Gorgonio Healthcare District

## Notes to Financial Statements

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### Note 11: Risk Management (Continued)

#### Liability Insurance (Continued)

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the District. The District does not believe potential claims are significant and, accordingly, has not provided a reserve for potential claims from services provided to patients through June 30, 2020, that have not yet been asserted.

The District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

### Note 12: Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist principally of patient and resident accounts receivable. Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for healthcare provided to the patients.

The mix of receivables from patients, residents, and third-party payors consisted of the following:

<i>June 30,</i>	2020
Medicare	10 %
Medicaid	21 %
Blue Cross	4 %
Other third-party payors	54 %
Self-pay	11 %
<b>Total</b>	<b>100 %</b>



# San Gorgonio Healthcare District

## Notes to Financial Statements

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### **Note 13: Beneficial Interest in Assets Held by San Gorgonio Hospital Foundation**

San Gorgonio Hospital Foundation, Inc. (the "Foundation") was established to solicit contributions for the District and to support healthcare services in the geographical area of Banning and Beaumont, California. The Foundation has a separate board of directors from the District but exists primarily to support the District. The Foundation contributed \$331,846 during the year ended June 30, 2020.

The District records its interest in the net assets of the Foundation, assets that have been collected by the Foundation but not yet distributed to the District as of the end of each fiscal year. At June 30, 2020, the District recorded \$496,107 as interest in the net assets of the Foundation in the statement of net position.

### **Note 14: COVID-19 Relief Funds and Grant Revenue**

During 2020, the District received \$6,299,026 in grant funding from the HHS Provider Relief Fund (PRF), which was established as a result of the CARES Act. Based on the terms and conditions of the grant, the District earns the grant by incurring healthcare-related expenses attributable to COVID-19 that another source has no reimbursed and is not obligated to reimburse, or by incurring lost revenues, defined as a negative change in year-over-year net patient service revenue. During 2020, the District recognized \$6,299,026 in revenue related to this program, which reflects management's estimate of the amount of the grant earned, including consideration for uncertainties related to reporting guidance still developing as of the date of the financial statements were available to be issued. Unearned revenue related to the PRF was \$- at June 30, 2020.

### **Note 15: Medicare Refundable Advance**

As a result of the COVID-19 pandemic, CMS offered an accelerated and advance payment program which gave healthcare providers the opportunity to receive an advance on future Medicare payments. The District received a non-interest-bearing Medicare Refundable Advance of \$2,577,690 in 2020. Repayment of the Medicare Refundable Advance is expected to begin 12 months after receipt of the advance with total repayment due no later than one year after receipt of the advance. The District has a Medicare Refundable Advance liability totaling \$2,577,690 at June 30, 2020.

### **Note 16: Restatement**

The accompanying statement of net position was restated to account for a change in accounting principle. The previously unamortized portion of bond issue costs resulted in a reduction in net position at June 30, 2019, in the amount of \$690,287.

## **Supplementary Information**

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DRAFT - FOR DISCUSSION PURPOSES ONLY

# San Gorgonio Healthcare District

## Combining Statement of Net Position

June 30, 2020	Hospital	District	Eliminations	Total
<b>Current assets:</b>				
Cash and cash equivalents:				
Unrestricted	\$ 9,393,778	\$ 2,544,822	\$ -	\$ 11,938,600
Restricted, available for current debt service	-	955,807	-	955,807
Receivables:				
Patient accounts - net	7,088,594	54,285	-	7,142,879
Other accounts receivable	12,109,078	14,033,885	(12,849,426)	13,293,537
Inventories	1,789,075	-	-	1,789,075
Prepaid expenses and other	215,763	72,820	-	288,583
<b>Total current assets</b>	<b>30,596,288</b>	<b>17,661,619</b>	<b>(12,849,426)</b>	<b>35,408,481</b>
<b>Noncurrent assets:</b>				
Capital assets - Nondepreciable	-	998,204	-	998,204
Capital assets - Net of accumulated depreciation	-	82,436,721	-	82,436,721
Cash and cash equivalents - Restricted, net of amount available for current debt service	-	8,880,833	-	8,880,833
Cash and cash equivalents - Board designated	-	424,176	-	424,176
Beneficial interest in the net assets of San Gorgonio Hospital Foundation	496,107	-	-	496,107
<b>Total noncurrent assets</b>	<b>496,107</b>	<b>92,739,934</b>	<b>-</b>	<b>93,236,041</b>
Deferred outflows of resources - Loss on bond refunding	-	759,389	-	759,389
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 31,092,395</b>	<b>\$ 111,160,942</b>	<b>\$ (12,849,426)</b>	<b>\$ 129,403,911</b>

# San Geronio Healthcare District

## Combining Statement of Net Position (Continued)

<i>June 30, 2020</i>	Hospital	District	Eliminations	Total
<b>Current liabilities:</b>				
Current portion of long-term debt	\$ -	\$ 2,335,000	\$ -	\$ 2,335,000
Accounts payable	17,827,147	338,787	(12,849,426)	5,316,508
Accrued salary, payroll taxes, and benefits	4,124,703	-	-	4,124,703
Third-party payor settlements	2,435,348	-	-	2,435,348
Current portion of refundable advance	322,211	-	-	322,211
Line of credit	6,000,000	-	-	6,000,000
Accrued interest	-	2,020,229	-	2,020,229
<b>Total current liabilities</b>	<b>30,709,409</b>	<b>4,694,016</b>	<b>(12,849,426)</b>	<b>22,553,999</b>
<b>Noncurrent liabilities:</b>				
Long-term debt, less current portion	-	108,192,847	-	108,192,847
Refundable advance, less current portion	2,255,479	-	-	2,255,479
<b>Total noncurrent liabilities</b>	<b>2,255,479</b>	<b>108,192,847</b>	<b>-</b>	<b>110,448,326</b>
<b>Total liabilities</b>	<b>32,964,888</b>	<b>112,886,863</b>	<b>(12,849,426)</b>	<b>133,002,325</b>
<b>Net position:</b>				
Net investment in capital assets	-	(17,256,282)	-	(17,256,282)
Restricted	-	9,836,640	-	9,836,640
Unrestricted	(1,872,493)	5,693,721	-	3,821,228
<b>Total net position</b>	<b>(1,872,493)</b>	<b>(1,725,921)</b>	<b>-</b>	<b>(3,598,414)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 31,092,395</b>	<b>\$ 111,160,942</b>	<b>\$ (12,849,426)</b>	<b>\$ 129,403,911</b>

# San Geronio Healthcare District

## Combining Statement of Revenues, Expenses, and Changes in Net Position

<i>Year Ended June 30, 2020</i>	Hospital	District	Eliminations	Total
<b>Operating revenue:</b>				
Net patient service revenue	\$ 58,568,032	\$ 156,518	\$ -	\$ 58,724,550
Other operating revenue	1,725,445	37,445	-	1,762,890
<b>Total operating revenue</b>	<b>60,293,477</b>	<b>193,963</b>	<b>-</b>	<b>60,487,440</b>
<b>Operating expenses:</b>				
Salaries and wages	37,250,689	-	-	37,250,689
Employee benefits	9,032,491	-	-	9,032,491
Legal and professional fees	3,716,749	1,134,270	-	4,851,019
Contract labor	714,190	-	-	714,190
Supplies	9,011,747	554	-	9,012,301
Utilities	968,157	-	-	968,157
Purchased services	5,504,338	91,969	-	5,596,307
Building and equipment rent	950,799	-	-	950,799
Depreciation	-	6,077,964	-	6,077,964
Other operating expense	6,726,031	111,891	-	6,837,922
<b>Total operating expenses</b>	<b>73,875,191</b>	<b>7,416,648</b>	<b>-</b>	<b>81,291,839</b>
<b>Loss from operations</b>	<b>(13,581,714)</b>	<b>(7,222,685)</b>	<b>-</b>	<b>(20,804,399)</b>
<b>Non operating revenue (expense):</b>				
Taxes	-	11,537,473	-	11,537,473
Grants, contributions, and other nonoperating revenue	7,875,108	280,999	-	8,156,107
Interest expense	(342,836)	(4,722,294)	-	(5,065,130)
<b>Total nonoperating revenue</b>	<b>7,532,272</b>	<b>7,096,178</b>	<b>-</b>	<b>14,628,450</b>
Deficit in revenue over expenses	(6,049,442)	(126,507)	-	(6,175,949)
Impairment loss on capital assets	-	(8,274,886)	-	(8,274,886)
Capital grants and contributions	-	52,112	-	52,112
<b>Decrease in net position</b>	<b>(6,049,442)</b>	<b>(8,349,281)</b>	<b>-</b>	<b>(14,398,723)</b>
Net position - Beginning of year, as previously reported	4,176,949	7,313,647	-	11,490,596
Restatement - Change in accounting principle	-	(690,287)	-	(690,287)
<b>Net position - End of year</b>	<b>\$ (1,872,493)</b>	<b>\$ (1,725,921)</b>	<b>\$ -</b>	<b>\$ (3,598,414)</b>

## **Other Reporting Required by Government Auditing Standards**

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DRAFT - FOR DISCUSSION PURPOSES ONLY

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Board of Directors  
San Geronio Healthcare District  
Banning, CA

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of San Geronio Healthcare District (the "District"), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated "REPORT DATE".

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

"REPORT DATE"  
Oakland, California