

**COUNTY OF SAN BERNARDINO**  
**ARROWHEAD REGIONAL MEDICAL CENTER**  
(A Component Unit of the County of San Bernardino, California)

**BASIC FINANCIAL STATEMENTS**  
**WITH INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2008 AND 2007**

**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

**JUNE 30, 2008 AND 2007**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Board of Supervisors  
County of San Bernardino, California

We have audited the accompanying financial statements of the Arrowhead Regional Medical Center (the Medical Center), a component unit of the County of San Bernardino (the County), as of and for the years ended June 30, 2008 and 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 of the notes to the financial statements, the financial statements present only the Medical Center and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2008 and 2007, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008 on our consideration of the Medical Center'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Medical Center has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Varenick, Tami Day, Co., LLP*

Rancho Cucamonga, California  
September 30, 2008

**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

**STATEMENTS OF NET ASSETS**

**JUNE 30, 2008 AND 2007**

**(In Thousands)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 31,606	\$ 34,422
Restricted investments held with fiscal agent	12,110	
Patient accounts receivable, net of estimated uncollectibles of \$182,112 in 2008 and \$227,565 in 2007	30,287	35,580
Due from third-party payors		6,067
Receivable from other governments	18,963	11,428
Due from County	2,381	1,526
Supplies inventories	1,533	1,579
Prepaid expenses and other assets	2,558	2,776
Total Current Assets	<u>99,438</u>	<u>93,378</u>
Noncurrent Assets:		
Restricted investments held with fiscal agent	48,090	59,019
Restricted investments held with fiscal agent - interest	996	1,002
Capital assets, net of accumulated depreciation of \$205,808 in 2008 and \$186,792 in 2007	424,531	433,150
Deferred issuance costs	7,202	7,831
Total Noncurrent Assets	<u>480,819</u>	<u>501,002</u>
Total Assets	<u>580,257</u>	<u>594,380</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	12,820	13,365
Accrued salaries and benefits	23,053	20,809
Other accrued liabilities	454	502
Due to third-party payors	350	
Capital lease obligations	1,351	1,665
Certificates of participation	29,795	27,180
Interest payable	11,386	11,996
Arbitrage payable	531	264
Due to County	18,323	13,950
Total Current Liabilities	<u>98,063</u>	<u>89,731</u>
Noncurrent Liabilities:		
Long-term compensated absences	518	
Capital lease obligations, less current installments	1,400	2,471
Certificates of participation, less current installments (net of deferred amount of refunding and bond discount)	462,826	490,379
Total Noncurrent Liabilities	<u>464,744</u>	<u>492,850</u>
Total Liabilities	<u>562,807</u>	<u>582,581</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	(63,639)	(80,714)
Restricted for debt service	48,814	47,023
Unrestricted	32,275	45,490
Total Net Assets	<u>\$ 17,450</u>	<u>\$ 11,799</u>

See accompanying notes to basic financial statements.

**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

**YEARS ENDED JUNE 30, 2008 AND 2007**

**(In Thousands)**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Net patient service revenue	\$ 335,749	\$ 319,933
Premium revenue - managed care	7,271	9,059
Other	5,308	4,468
Total Operating Revenues	<u>348,328</u>	<u>333,460</u>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	198,681	191,779
Medi-Cal matching fund expense	26,109	31,327
Medical claims expense	1,498	2,555
Supplies	63,462	64,106
Professional services	38,854	38,518
Purchased services	27,746	28,517
Insurance	8,662	7,745
Utilities	7,657	7,126
Depreciation and amortization	19,016	18,251
Rent	4,905	4,650
Amortization related to debt	2,871	2,871
Other	1,123	1,185
Total Operating Expenses	<u>400,584</u>	<u>398,630</u>
Operating Loss	<u>(52,256)</u>	<u>(65,170)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State debt service funding	23,430	26,594
State realignment funding	38,381	46,387
Federal grants	712	382
Tobacco tax	638	735
Investment income	5,455	3,460
Interest expense on debt	(27,076)	(28,423)
Other nonoperating expenses	(717)	(725)
Total Nonoperating Revenues, Net	<u>40,823</u>	<u>48,410</u>
Income (Loss) Before Transfers	<u>(11,433)</u>	<u>(16,760)</u>
Transfers from the County	20,838	17,960
Transfers to the County	(3,754)	(9,977)
Changes in Net Assets	<u>5,651</u>	<u>(8,777)</u>
Net Assets (Liabilities), Beginning of Year	<u>11,799</u>	<u>20,576</u>
Net Assets, End of Year	<u>\$ 17,450</u>	<u>\$ 11,799</u>

See accompanying notes to basic financial statements.

