

**HI-DESERT MEDICAL CENTER  
FISCAL 2012 BUDGET**

	<b>FY 2012 BUDGET</b>
Gross Patient Revenue	
Inpatient Revenue	<b>\$89,764,681</b>
Outpatient Revenue	<b>83,731,931</b>
Long Term Care Revenue	<b>28,487,657</b>
Home Health/Hospice Revenue	<b>4,137,634</b>
<b>Total Gross Patient Revenue</b>	<b>206,121,903</b>
Deductions From Revenue	
Discounts and Allowances	<b>(128,891,718)</b>
Bad Debt	<b>(11,860,060)</b>
Charity	<b>(4,139,940)</b>
<b>Total Deductions From Revenue</b>	<b>(144,891,718)</b>
	<b>70.3%</b>
<b>Net Patient Revenue</b>	<b>61,230,185</b>
Other Operating Revenue	<b>548,900</b>
<b>Total Operating Revenue</b>	<b>\$61,779,085</b>
Operating Expenses	
Salaries and Wages	<b>28,395,322</b>
Fringe Benefits	<b>9,491,070</b>
Contract Labor	<b>1,769,239</b>
Physicians Fees	<b>3,733,091</b>
Purchased Services	<b>3,686,329</b>
Supply Expense	<b>7,886,309</b>
Utilities	<b>1,258,164</b>
Repairs and Maintenance	<b>1,991,773</b>
Insurance Expense	<b>608,555</b>
All Other Operating Expenses	<b>908,859</b>
Leases and Rentals	<b>345,230</b>
Depreciation and Amortization	<b>3,670,278</b>
<b>Total Operating Expenses</b>	<b>63,744,219</b>
<b>Net Operating Surplus/(Loss)</b>	<b>(\$1,965,134)</b>
<b>Net operating with Interest</b>	<b>(2,814,535)</b>
Non-Operating Revenue:	
Contributions	<b>\$4,025</b>
Investment Income	<b>1,135,127</b>
Income-Property Taxes	<b>560,000</b>
Interest Expense	<b>(849,401)</b>
Other Non-Op Revenue/(Exp)	<b>(148,121)</b>
<b>Total Non Operating Rev/(Exp)</b>	<b>701,630</b>
<b>Total Net Surplus/(Loss)</b>	<b>(\$1,263,504)</b>

<b>Operating Margin</b>	<b>-3.18%</b>
<b>Total Profit Margin</b>	<b>-2.05%</b>
<b>EBIDA</b>	<b>3.63%</b>
<b>Cash Flow Margin</b>	<b>5.22%</b>

HI-DESERT MEMORIAL HEALTH CARE DISTRICT											
CAPITAL EXPENDITURE BUDGET											
HOSPITAL AND OVERHEAD DEPARTMENTS											
FY 2012											
-----FY 2012-----											
DEPT	DESCRIPTION	QTY	QUARTER EQUIPMENT IS NEEDED				FY 2012 TOTAL	FY 2013	FY 2014	FY 2015	GRAND TOTAL
			1	2	3	4					
6010	<b>ICU</b>										
	Defibrillators	4	75,279			75,279				75,279	
	Rotational Beds	1	44,035			44,035	132,106			176,141	
	IV Pumps	0	0			0				0	
	Dosetrack for IV Pumps	0	0			0				0	
	Upgrade Defibrillators EtCO2	10	50,017			50,017				100,034	
	Ice Maker					0	7,167			7,167	
	DEPARTMENT TOTAL		169,331	0	0	50,017	219,348	139,273	0	0	358,621
6173	<b>MED SURG WINGS</b>										
	Tabletop Blanket Warmer	1	3,423			3,423				3,423	
	Ice Maker	0	0			0	7,167			7,167	
	Vital Signs Monitor	8	34,204			34,204	34,204			68,408	
	Flat Recliners	5	10,717			10,717				10,717	
	Room Renovations		0			0	337,968			337,968	
	PCA Pumps	10	37,375			37,375				37,375	
	DEPARTMENT TOTAL		85,719	0	0	0	85,719	379,339	0	0	465,058
6400	<b>LDRP</b>										
	Hearing Screen Machine	1	22,193			22,193				22,193	
	DEPARTMENT TOTAL		22,193	0	0	0	22,193	0	0	0	22,193
7010	<b>EMERGENCY ROOM</b>										
	Trauma Gurney	2	5,769	5,769		11,538				11,538	
	Treatment Gurney	0			0	0	5,406	5,406	5,406	16,218	
	Vital Signs Monitor					0		8,876		8,876	
	DEPARTMENT TOTAL		5,769	5,769	0	0	11,538	5,406	14,282	5,406	36,632
7085	<b>YV RHC</b>										
	Lobby Chairs	32	4,313			4,313				4,313	
	B/P Machine w Stand Cuffs	3	2,788			2,788				2,788	
	Bariatric Exam Table	1	5,334			5,334				5,334	
	Renovate Peds & Adult Area		0			0				0	
	DEPARTMENT TOTAL		12,435	0	0	0	12,435	0	0	0	12,435
7086	<b>29 RHC</b>										
	Lobby Chairs/Tables		3,269			3,269				3,269	
	Bariatric Exam Table		5,334			5,334				5,334	
	B/P Machine w Stand Cuffs	0				0				0	
	DEPARTMENT TOTAL		8,603	0	0	0	8,603	0	0	0	8,603
7200	<b>AIRWAY SURGERY</b>										
	Gi Monitor/Stand	1	5,773			5,773				5,773	
	Colonoscope/Gastroscope				60,312	60,312	40,000	70,000	40,000	210,312	
	OR Lights			0		0	167,180			167,180	
	OR Table	1				0	53,767			53,767	
	Micro Hand Drill Set	1	21,106			21,106				21,106	
	Gi Printer					0	10,000			10,000	
	Gurneys					0	30,000	30,000		60,000	
	Phacoemulsification Unit					0		70,000		70,000	
	GI Scope Processor					0			5,000	5,000	
	Autoclave					0			80,000	80,000	
	DEPARTMENT TOTAL		26,879	0	0	60,312	87,191	300,947	170,000	125,000	683,138
7261	<b>BEHAVIORAL HEALTH</b>										
	Passenger Van	0	0			0				0	
	DEPARTMENT TOTAL		0	0	0	0	0	0	0	0	
7420	<b>SURGERY &amp; RECOVERY</b>										
1	Micro Hand Drill	1			33,525	33,525				33,525	
2	Upper Endoscopy Scopes	1		27,754		27,754		27,000		54,754	
7	Bronchoscopy	1		24,637		24,637				24,637	
4	Stryker Tower/Endo/Arthroscopy	1	85,966			85,966				85,966	
5	Monitor GI Rm	1	5,773			5,773				5,773	
3	Colonoscope	1			32,716	32,716		34,000		66,716	
6	Surgical LED Lights	2			0	0	95,590	95,590		191,180	
	Fracture Table					0	34,000			34,000	
	Harmonic Scalpel					0	3,700			3,700	
	PACU Strecher					0	5,000			5,000	
	Microscope					0	20,000			20,000	
	Update Laproscopic Tower					0		91,000		91,000	
	Update Arthroscopy Equipment					0			12,000	12,000	
	OR Table					0			80,000	80,000	
	DEPARTMENT TOTAL		91,739	52,391	33,525	32,716	210,371	158,290	247,590	92,000	708,251

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HOSPITAL AND OVERHEAD DEPARTMENTS											
FY 2012											
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DEPT	DESCRIPTION	QTY	QUARTER EQUIPMENT IS NEEDED				FY 2012	FY 2013	FY 2014	FY 2015	GRAND
			1	2	3	4	TOTAL				TOTAL
<b>7500</b>	<b>CLINICAL LAB</b>										
	CA 560 Analyzer	1	25,706							25,706	
	Centrifuges	1		5,458						5,458	
	Urinalysis System	1		78,609						78,609	
	Rals Interface	1		89,560						89,560	
	Clinitek Status Connect System	6		12,554						12,554	
	Hemocue 201 DM Analyzer	3	8,899							8,899	
	Microtiter System					0	30,000			30,000	
	DNA Probe System					0	80,000			80,000	
	Upgrade Chemistry System					0		50,000		50,000	
	Molecular System					0			100,000	100,000	
	DEPARTMENT TOTAL		34,605	186,181	0	0	220,786	110,000	50,000	100,000	480,786
<b>7502</b>	<b>MICROBIOLOGY</b>										
	Large CO2 Incubator	2	17,339							17,339	
	DNA Probe Technology					0	75,000			75,000	
	Molecular Technology					0		75,000		75,000	
	Refrigerator								8,000	8,000	
	DEPARTMENT TOTAL		17,339	0	0	0	17,339	75,000	75,000	8,000	175,339
<b>7508</b>	<b>COURIER</b>										
	Car					0	25,000			25,000	
	DEPARTMENT TOTAL		0	0	0	0	0	25,000	0	0	25,000
<b>7520</b>	<b>PATHOLOGY</b>										
	Cryostat	0		0		0				0	
	Embedding Center					0	13,800			13,800	
	DEPARTMENT TOTAL		0	0	0	0	0	13,800	0	0	13,800
<b>7540</b>	<b>BLOOD BANK</b>										
	Blood bank software consultant build				55,000		55,000			55,000	
	BBK Refrigerator					0	15,000			15,000	
	BBK Automation					0		125,000		125,000	
	Plasma Freezer					0			15,000	15,000	
	DEPARTMENT TOTAL		0	0	55,000	0	55,000	15,000	125,000	15,000	210,000
<b>7590</b>	<b>CARDIOLOGY</b>										
	Echocardiogram Machine	1	0				0	153,000		153,000	
	DEPARTMENT TOTAL		0	0	0	0	0	153,000	0	0	153,000
<b>7630</b>	<b>IMAGING</b>										
	Digitizer Upgrade Mammography	2	14,711							14,711	
	Video-Fluoro Chair	1		9,944						9,944	
	Rad/Fluoro Room				0					0	
	CR Cassette	6		6,185				12,371	12,371	12,371	43,298
	EMC Fabric Switch	1	43,409							43,409	
	Centera 14TB Storage		88,879					89,011	89,011	89,011	355,912
	Patient Link Software					15,005	15,005			15,005	
	San Storage Unit		38,692					38,692	38,692	116,076	
	DR NDS 5MP Mono. Monitors	2	22,125							22,125	
	AMX4 Portable					0	46,335			46,335	
	DEPARTMENT TOTAL		207,816	16,129	0	15,005	238,950	186,409	140,074	101,382	666,815
<b>7632</b>	<b>AIRWAY RADIOLOGY</b>										
	Digital Mammography Unit	2			813,204		813,204			813,204	
	Rad Rm	2				503,566	503,566			503,566	
	DR Mammography Monitors	2			22,125		22,125			22,125	
	Centera 14TB Storage					89,011	89,011	89,011	89,011	89,011	356,044
	CR Cassette	6			6,185		6,185		12,371	18,556	
	Presision 500Rad/Fluoro Rm					0	310,295			310,295	
	DEPARTMENT TOTAL		0	0	835,329	598,762	1,434,091	399,306	101,382	89,011	2,023,790
<b>7650</b>	<b>NUCLEAR MED</b>										
	Computer Work Station Upgrade	1	47,022							47,022	
	DEPARTMENT TOTAL		47,022	0	0	0	47,022	0	0	0	47,022
<b>7670</b>	<b>ULTRASOUND</b>										
	Ultrasound Unit	1		173,617				196,211		369,828	
	DEPARTMENT TOTAL		0	173,617	0	0	173,617	196,211	0	0	369,828
<b>7680</b>	<b>CT</b>										
	EMC 14TB Storage			89,011			89,011	89,011	89,011	89,011	356,044
	16 Slice CT Unit					0	600,000			600,000	
	DEPARTMENT TOTAL		0	89,011	0	0	89,011	689,011	89,011	89,011	956,044

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FY 2012											
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			1	2	3	4					
7720	RESPIRATORY THERAPY										
						0				0	
						0				0	
	DEPARTMENT TOTAL		0	0	0	0	0	0	0	0	
7773	YVOP-PT										
	Ultrasound, cart, adapter	1	3,424			3,424				3,424	
	Renovation	-	15,000			15,000				15,000	
	Partitions	-	16,812			16,812				16,812	
	Hi-Low Mat					0	5,375			5,375	
	Treadmill					0	6,515			6,515	
	DEPARTMENT TOTAL		35,236	0	0	0	35,236	11,890	0	0	
7775	CCC-PT										
	NU Step	1	4,169			4,169				4,169	
	Easystand Standing Frame	1	2,879			2,879				2,879	
	DEPARTMENT TOTAL		7,048	0	0	0	7,048	0	0	0	
7785	YVOP-SPEECH										
	Vitalstim Therapy Unit					0	2,935			2,935	
	DEPARTMENT TOTAL		0	0	0	0	2,935	0	0	2,935	
7793	YVOP-OT										
	Adjustable Work Table					0	2,600			2,600	
	DEPARTMENT TOTAL		0	0	0	0	2,600	0	0	2,600	
7873	INFUSION CLINIC										
	Vital Signs Monitor	2	8,526			8,526				8,526	
	DEPARTMENT TOTAL		8,526	0	0	0	8,526	0	0	0	
8340	DIETARY										
	Deli Case		3,247			3,247				3,247	
	P.O.S. System	1	12,428			12,428				12,428	
	DEPARTMENT TOTAL		15,675	0	0	0	15,675	0	0	15,675	
8380	CENTRAL SUPPLY										
	Sterrad NX Sterilizer	1	57,019			57,019				57,019	
	System 1E Sterilizer	1			33,918	33,918				33,918	
	Steam Gun	1		7,369		7,369				7,369	
	DEPARTMENT TOTAL		57,019	7,369	33,918	0	98,306	0	0	0	
8390	PHARMACY										
	Diebold Project	3		207,579		207,579				207,579	
	340B Split Billing Application				23,800	23,800				23,800	
						0				0	
	DEPARTMENT TOTAL		0	207,579	23,800	0	231,379	0	0	0	

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HOSPITAL AND OVERHEAD DEPARTMENTS											
FY 2012											
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QUARTER EQUIPMENT IS NEEDED											
DEPT	DESCRIPTION	QTY	1	2	3	4	FY 2012 TOTAL	FY 2013	FY 2014	FY 2015	GRAND TOTAL
8400	<b>Materials Management</b>										
	Electric Cart	1	8,952				8,952				8,952
	Electric Pallet Jack	1	4,744				4,744				4,744
	Air Conditioning				0		0				0
	DEPARTMENT TOTAL		13,696	0	0	0	13,696	0	0	0	13,696
8420	<b>Security</b>										
	Cameras	10	30,000				30,000				30,000
	Panic Buttons	2	3,364				3,364				3,364
	Radios	15	4,072				4,072				4,072
	Proxi Pen RFID Kit	1	3,251				3,251				3,251
	DEPARTMENT TOTAL		40,687	0	0	0	40,687	0	0	0	40,687
8440	<b>ENVIRONMENTAL SERVICES</b>										
	Compact Scrubber	1	3,764				3,764				3,764
	Extractor	1		3,696			3,696				3,696
	Battery Auto Scrubber						0	8,000			8,000
	Housekeeping Carts						0	2,800			2,800
	Trash Carts						0		6,500		6,500
	DEPARTMENT TOTAL		3,764	3,696	0	0	7,460	10,800	6,500	0	24,760
8460	<b>ENGINEERING</b>										
	HVAC CCC Kitchen	-			163,000		163,000		100,000		263,000
	Paving HDMC	-				50,000	50,000	82,000			132,000
	Humidification OR,HDMC,AOC	-	50,000				50,000				50,000
	HVAC OR,AOC	-		50,000			50,000	180,000		100,000	330,000
	CCC Fire Alarm System	-			150,000		150,000		30,000		180,000
	HDMC ,CCC Lighting Upgrade	-	25,000	25,000	25,000	25,000	100,000		50,000	50,000	200,000
	Electric Cart	1	10,000				10,000				10,000
	Paving CCC	-	0				0		15,000		15,000
	Surgery Flooring	-	50,000				50,000		20,000		70,000
	HDMC Medical Vacuum	-			60,000		60,000				60,000
	CCC Televisions	50				47,551	47,551				47,551
	Truck	1				30,000	30,000				30,000
	CMMS Software	-		14,800			14,800				14,800
	Clean Work Booth	-		0			0				0
	Hands Free Faucet	20				0	0	10,000	10,000	10,000	30,000
	Roof HDMC/ CCC						0	600,000	135,000	20,000	755,000
	Bio Hazard Waste System						0	400,000			400,000
	Power Load Study						0	10,000			10,000
	Emergency Power System						0	200,000	800,000	300,000	1,300,000
	Trash Compactor						0	50,000			50,000
	Master Clock System						0	50,000			50,000
	Automatic Doors CCC						0	20,000	6,000		26,000
	Boiler Expansion Tank						0	20,000			20,000
	Roof Stairwell CCC						0	15,000			15,000
	Patio Weathershade						0		30,000		30,000
	Landscaping						0			100,000	100,000
	DEPARTMENT TOTAL		135,000	89,800	398,000	152,551	775,351	1,637,000	1,196,000	580,000	4,188,351

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FY 2012											
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DEPT	DESCRIPTION	QTY	1	2	3	4	FY 2012 TOTAL	FY 2013	FY 2014	FY 2015	GRAND TOTAL
<b>8480</b>	<b>INFORMATION SERVICES</b>										
	Scanning /Archiving		0				0	200,369			200,369
	Midas Statit				45,000		45,000				45,000
	Midas (Core Measures)		11,000				11,000				11,000
	Midas(Seeker)				44,315		44,315				44,315
	Dell Optiplex	49	16,650	16,650	16,650	16,650	66,600				66,600
	Printers	24	6,388	6,388	6,388	6,388	25,552				25,552
	MS Office 2010	110	10,859	10,858	10,858	10,858	43,433				43,433
	Intranet Upgrade		35,561				35,561				35,561
	ZynxCare		0	32,000			32,000				32,000
	DR First		70,000				70,000				70,000
	EDM Phase 2				52,000		52,000				52,000
	EDM Consulting /Intergration				150,000		150,000				150,000
	PT Wireless		0				0	230,758			230,758
	Ebsco(pt d/c instructions)		11,665				11,665				11,665
	Spacelabs monitor interface		31,050				31,050				31,050
	LogeNet		0				0	366,889			366,889
	HealthStream Competency Center		24,367				24,367				24,367
	Laptops	0	0				0				0
	McAfee Spyware		6,199				6,199				6,199
	EchoWorx Email Encrytion		4,500				4,500				4,500
	EventSentry		15,225				15,225				15,225
	2008 R2 Domain Controllers		20,304				20,304				20,304
	Exchange Server		28,685				28,685				28,685
	Citrix Remote Access		23,647				23,647				23,647
	PACS Upgrade		61,378			61,378	122,756				122,756
	Airway Wireless		2,719				2,719				2,719
	Data Center Expansion				326,250		326,250				326,250
	Virtualization of Data Center		0				0				0
	Cisco ASA 5520		26,000				26,000				26,000
	Helpdesk Software		5,481				5,481				5,481
	Meditech Interface CCD		0				0	113,063			113,063
	Interface Public Health		44,025	44,025			88,050				88,050
	Flooring		5,438				5,438				5,438
							0				0
	<b>DEPARTMENT TOTAL</b>		<b>461,141</b>	<b>109,921</b>	<b>651,461</b>	<b>95,274</b>	<b>1,317,797</b>	<b>911,079</b>	<b>0</b>	<b>0</b>	<b>2,228,876</b>
<b>8631</b>	<b>HG EDUCATION CENTER</b>										
	Tables /transport cart	19	5,055				5,055				5,055
	Chairs						0	19,960			19,960
	Lobby Desk						0		5,500		5,500
	<b>DEPARTMENT TOTAL</b>		<b>5,055</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,055</b>	<b>19,960</b>	<b>5,500</b>	<b>0</b>	<b>30,515</b>
<b>8742</b>	<b>EDUCATION</b>										
	Birthing Simulator	1	4,060				4,060				4,060
	Adult ALS Simulator	1	3,420				3,420				3,420
	<b>DEPARTMENT TOTAL</b>		<b>7,480</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,480</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,480</b>
	<b>HOSPITAL &amp; ANCILLARY TOTALS</b>		<b>1,519,777</b>	<b>941,463</b>	<b>2,031,033</b>	<b>1,004,637</b>	<b>5,496,910</b>	<b>5,442,256</b>	<b>2,220,339</b>	<b>1,204,810</b>	<b>14,364,315</b>

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FY 2012											
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QUARTER EQUIPMENT IS NEEDED											
DEPT	DESCRIPTION	QTY	1	2	3	4	FY 2012 TOTAL	FY 2013	FY 2014	FY 2015	GRAND TOTAL
	<b>CONTINUING CARE CENTER:</b>										
<b>6560</b>	<b>CCC SUBACUTE</b>										
	Vital Sign Monitor	2	3,220	3,220			6,440				6,440
	Breakroom Restoration				4,300		4,300				4,300
	Shower Trolley	1		6,382			6,382				6,382
	Ventilators	6	0	0	35,137	35,137	70,274				70,274
	Transcutaneous Oximetry	1	20,592				20,592				20,592
	Soied Rm/Nourishment Cabinetry			7,341			7,341				7,341
	<b>DEPARTMENT TOTAL</b>		<b>23,812</b>	<b>16,943</b>	<b>39,437</b>	<b>35,137</b>	<b>115,329</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>115,329</b>
<b>6580</b>	<b>CCC-NURSING (SNF)</b>										
	Vital Sign Monitor	2	3,220	3,220			6,440				6,440
	Bladder Scan	1	16,357				16,357				16,357
	Breakroom Restoration				4,300		4,300				4,300
	Soied Rm/Nourishment Cabinetry		7,341				7,341				7,341
	Shower Trolley/Lift	1		12,638			12,638				12,638
	Wheelchairs	12	4,010				4,010				4,010
	Bathtub	1				14,785	14,785				14,785
	<b>DEPARTMENT TOTAL</b>		<b>30,928</b>	<b>15,858</b>	<b>4,300</b>	<b>14,785</b>	<b>65,871</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>65,871</b>
<b>8341</b>	<b>CCC-DIETARY</b>										
	Shelving		4,313				4,313				4,313
	Soft Serve Machine	0		0			0				0
	Refrigerator	2			8,237		8,237				8,237
	Food Bar	1		3,142			3,142				3,142
	Ice Maker	0	0				0				0
	Gas Fryer						0	5,425			5,425
	Conveyor Toaster						0	2,774			2,774
	Demonstration Table						0	2,995			2,995
	<b>DEPARTMENT TOTAL</b>		<b>4,313</b>	<b>3,142</b>	<b>8,237</b>	<b>0</b>	<b>15,692</b>	<b>11,194</b>	<b>0</b>	<b>0</b>	<b>26,886</b>
<b>8441</b>	<b>CCC-EVS</b>										
	Carpet Cleaner	1	12,101				12,101				12,101
	Cleaning Cart	6		4,352	4,352	4,352	13,056				13,056
	<b>DEPARTMENT TOTAL</b>		<b>12,101</b>	<b>4,352</b>	<b>4,352</b>	<b>4,352</b>	<b>25,157</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,157</b>
<b>8721</b>	<b>CCC ADMINISTRATION</b>										
	Facility Van	0		0			0		41,129		41,129
	Caretracker System		18,976				18,976				18,976
	<b>DEPARTMENT TOTAL</b>		<b>18,976</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18,976</b>	<b>0</b>	<b>41,129</b>	<b>0</b>	<b>60,105</b>
<b>8471</b>	<b>CCC COMMUNICATIONS</b>										
							0				0
	<b>DEPARTMENT TOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>CCC Totals</b>		<b>90,130</b>	<b>40,295</b>	<b>56,326</b>	<b>54,274</b>	<b>241,025</b>	<b>11,194</b>	<b>41,129</b>	<b>0</b>	<b>293,348</b>
	<b>TOTAL HOSPITAL &amp; CCC DEPARTMENTS</b>		<b>1,609,907</b>	<b>981,758</b>	<b>2,087,359</b>	<b>1,058,911</b>	<b>5,737,935</b>	<b>5,453,450</b>	<b>2,261,468</b>	<b>1,204,810</b>	<b>14,657,663</b>

HI-DESERT MEMORIAL HEALTH CARE DISTRICT											
CAPITAL EXPENDITURE BUDGET											
HOSPITAL AND OVERHEAD DEPARTMENTS											
FY 2012											
-----FY 2012-----											
QUARTER EQUIPMENT IS NEEDED											
DEPT	DESCRIPTION	QTY	1	2	3	4	FY 2012 TOTAL	FY 2013	FY 2014	FY 2015	GRAND TOTAL
<b>8490</b>	<b>PROJECT MANAGEMENT</b>										
	NPC-3 Fire Sprinklers		75,000	75,000	75,000	75,000	300,000				300,000
	Maintenance Building		425,000	425,000			850,000				850,000
	Acute In-Fill Phase			80,000	80,000	80,000	240,000				240,000
	Waste Water Treatment Plant		400,000	400,000	400,000		1,200,000				1,200,000
	Road & Parking Construction			666,666		666,668	1,333,334	666,666			2,000,000
	Administration Building		887,500	887,500	887,500	887,500	3,550,000				3,550,000
	CCC Fire Alarm Upgrade			75,000	75,000		150,000				150,000
	District Signage - Interior			0	0		0				0
	ICU/LDRP Expansion Design		50,000	50,000	50,000	50,000	200,000				200,000
	CCC Nurse Call Expansion		65,000				65,000				65,000
	Airway Remodel				150,000	150,000	300,000				300,000
	Landscaping Master Plan					75,000	75,000	75,000			150,000
	HG Sails/Glass Wind Break		30,000				30,000				30,000
	Walking Path		4,000				4,000				4,000
	Blueprint Scan				0		0				0
	Monument Signs		75,000				75,000	100,000			175,000
	Patio Shade Sail				25,000		25,000				25,000
	Phone System handsets		60,000				60,000				60,000
	Porte Cochere - Design			75,000	75,000		150,000				150,000
	<b>TOTAL PROJECT MANAGEMENT</b>		<b>2,071,500</b>	<b>2,734,166</b>	<b>1,817,500</b>	<b>1,984,168</b>	<b>8,607,334</b>	<b>841,666</b>	<b>0</b>	<b>0</b>	<b>9,449,000</b>
	<b>GRAND TOTALS</b>		<b>3,681,407</b>	<b>3,715,924</b>	<b>3,904,859</b>	<b>3,043,079</b>	<b>14,345,269</b>	<b>6,295,116</b>	<b>2,261,468</b>	<b>1,204,810</b>	<b>24,106,663</b>

***ANNUAL FINANCIAL REPORT***  
***HI-DESERT MEMORIAL HEALTH CARE DISTRICT***  
***JUNE 30, 2011 and 2010***

THOMAS L. CAMP

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Certified Public Accountant

**ANNUAL FINANCIAL REPORT**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**JUNE 30, 2011 and 2010**

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**Management Discussion and Analysis**  
**Hi-Desert Memorial Health Care District**  
**June 30, 2011, 2010 and 2009**

**Management's Discussion and Analysis and Financial Statements**

This discussion and analysis of Hi-Desert Memorial Health Care District's financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2011, 2010 and 2009. Please read it in conjunction with the District's financial statements and footnotes, which begin on page 10 of this annual financial report. Unless otherwise indicated dollar amounts are rounded to the nearest thousand.

**Financial Highlights**

- The District's net assets increased by \$953,000 in 2011, and increased by \$2,825,000 in 2010 and by \$8,195,000 in 2009.
- The District reported a gain from operations of \$225,000 in 2011, a gain of \$1,387,000 in 2010 and a gain of \$2,886,000 in 2009.
- Investments decreased by \$1.8 million during 2011, and increased by \$3.6 million in 2010 and \$10.7 million in 2009.
- Investment income amounted to \$951,000 in 2011, \$1.7 million in 2010 and \$1.4 million in 2009.
- Total cash and cash equivalents decreased by \$801,000 in 2011, decreased \$870,000 in 2010 and increased by \$531,000 in 2009.
- Net patient accounts receivable increased to \$9,753,000 in 2011 compared to \$9,363,000 in 2010, a 4.2% increase, and the \$9,363,000 in 2010 was a 12.8% increase compared to \$8,297,000 in 2009.
- Debt service coverage ratio on outstanding indebtedness decreased in 2011 to 2.8 times debt service compared to 4.0 times in 2010 versus 7.4 times in 2009. This is well above the minimum 1.25 times required by the Bond indentures.
- Net long term debt decreased in fiscal year 2011 by \$905,000, in 2010 by \$732,000 and by \$634,000 in fiscal year 2009 due to bond principle payments made on the 1998 and 2002 bond series and payments on a capitalized lease for equipment.
- The 2011 inpatient volume of services provided at the Medical Center showed a decrease of 8.8% in acute patient days compared to 2010; and a 4.4% decrease in outpatient visits in comparison with 2010. Volumes for 2010 showed a 3% decrease in acute patient days and a 9% increase in outpatient visits in comparison with 2009. The Emergency Department continues to show increased growth and completed the 2011 fiscal year with 24,959 visits, 3.5% above budget.

**Annual Report**

The District's financial statements consist of three statements – a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

### **The Balance Sheet and Statement of Operations and Changes in Net Assets**

The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the District's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and the changes in them. The difference between assets and liabilities is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. There are also other non-financial factors to consider such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

### **Statement of Cash Flows**

The final statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities.

### **Net Assets**

The District's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 12. The District's net assets increased by \$952,000, in 2011 and increased by \$2,825,000 in 2010 as shown in Table 2. The District experienced a \$ 1.2 million decrease in operating revenues and a \$2.1 million increase in operating expenses in 2011. There was a gain from operations in 2011, 2010, and 2009. A significant distribution from a charity added \$4.25 million in non-operating income in 2009. Total non-operating income was \$686,000 in 2011, \$1.4 million in 2010 and \$5.2 million in 2009.

**Table 1: Assets, Liabilities and Net Assets**

	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Assets			
Current assets	\$44,286,210	\$46,768,028	\$42,909,577
Other non-current assets	<u>19,381,831</u>	<u>17,672,997</u>	<u>19,032,384</u>
Total Assets	<b><u>\$63,668,041</u></b>	<b><u>\$64,441,025</u></b>	<b><u>\$61,941,961</u></b>
Liabilities			
Current liabilities	\$ 9,172,138	\$10,052,484	\$ 9,599,849
Long term debt, less current maturities	<u>12,220,229</u>	<u>13,065,743</u>	<u>13,844,624</u>
Total Liabilities	<b><u>21,392,367</u></b>	<b><u>23,118,227</u></b>	<b><u>23,444,473</u></b>
Net Assets			
Invested in capital assets, net of related debt	3,498,749	840,511	1,268,390
Restricted assets	2,769,270	2,669,553	2,669,022
Unrestricted assets	<u>36,007,655</u>	<u>37,812,734</u>	<u>34,560,076</u>
Total Net Assets	<b><u>42,275,674</u></b>	<b><u>41,322,798</u></b>	<b><u>38,497,488</u></b>
Total Liabilities & Net Assets	<b><u>\$63,668,041</u></b>	<b><u>\$64,441,025</u></b>	<b><u>\$61,941,961</u></b>

### **Operating Results and Changes in Net Assets**

In 2011 the District's operating revenues totaled \$ 58.7 million and expenses totaled \$58.5 million with a gain from operation of \$225,000. Non-operating revenues totaled \$686,000 with capital contributions totaling \$41,000 resulting in the \$953,000 increase in net assets.

In 2010 the District's operating revenues totaled \$57.1 million and expenses totaled \$56.4 million with a gain from operation of \$1.3 million. Non-operating revenues totaled \$1.4 million with contributions totaling \$30,000 resulting in the \$2.8 million increase in net assets.

In 2009 the District's operating revenues totaled \$54.8 million and expenses totaled \$52.0 million with a gain of operations of \$3,453,860. Non-operating revenues totaled \$5,244,000 with capital contributions totaling \$65,129 resulting in the \$8,763,290 increase in net assets.

**Table 2: Operating Results and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues			
Net patient revenues	\$58,455,681	\$57,190,212	\$54,278,076
Other operating revenues	<u>287,286</u>	<u>580,585</u>	<u>565,198</u>
Total operating revenues	58,742,967	57,770,797	54,843,274
 Total operating expenses	 <u>58,517,647</u>	 <u>56,384,063</u>	 <u>51,957,414</u>
 Operating gain (loss)	 225,320	 1,386,734	 2,885,860
Total non-operating revenues	<u>686,266</u>	<u>1,408,576</u>	<u>5,244,301</u>
Income (loss) before capital contributions	911,586	2,795,310	8,130,161
Capital contributions	<u>41,290</u>	<u>30,000</u>	<u>65,129</u>
Increase (decrease) in net asset	952,876	2,825,310	8,195,290
 Net assets at beginning of year	 <u>41,322,798</u>	 <u>38,497,488</u>	 <u>30,302,197</u>
 <b>Net assets at end of year</b>	 <b><u>\$42,275,674</u></b>	 <b><u>\$41,322,798</u></b>	 <b><u>\$38,497,488</u></b>

### **Operating Gains & Losses**

The first component of the overall change in the District's net assets is its operating gain – generally, the difference between operating revenues and operating expenses incurred to perform patient care and related services. The District reported an operating gain in 2011, 2010 and in 2009.

### **Gross Patient Charges**

The Hospital charges all its patients equally based on its established pricing structure for the services rendered. In fiscal year 2011 the Hospital decided that existing rates were correctly priced and no general rate increase was implemented. In January 2010 the Hospital did implement a second tier less expensive rate for certain referral outpatient services. The outpatient charges were developed based on the costs associated with unscheduled and “stat” (immediate) services. The lower rate was devised for scheduled non-emergent procedures and testing that could be accommodated more efficiently at the Hospital's convenience resulting in lower cost. While this reduced the Hospital's gross billings by \$8.2 million the effect on net revenue was negligible.

For the fiscal year 2009, the hospital contracted with PARA, Inc. for a charge study of area hospitals based on the Med-Par data published by the Center for Medicare and Medicaid Services (CMS). The intent was to price charges competitively by using the area median price. Increases were implemented at the beginning of the fiscal year, and resulted in an overall gross charge increase of 19%. The remainder of the increase in gross charges was generated by an overall 7% increase in patient volume.

HDMC is in the process of utilizing PARA to review the chargemaster for appropriate current codes, meet with Hospital Department Directors to evaluate current procedures and techniques, and suggest prices in updating the chargemaster.

### **Deductions from Revenue**

Deductions from revenue include contractual allowances and provisions for bad debt and charity discounts. Contractual allowances are computed deductions based on the difference between gross charges and the legislated rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal; and the negotiated reimbursement rates of other third party payers such as Blue Cross and Oasis.

Deductions from revenue (as a percentage of gross patient service charges) including bad debt and charity were 69.6% for fiscal year 2011 as compared to 71.3% for fiscal year 2010 and 73.7% in fiscal year 2009. Deductions for fiscal 2011 were affected by the issues below. The decrease in deductions from 2009 to 2010 was primarily the result of the outpatient lower prices for specific referral outpatient services effective January 1, 2010.

California AB 5 passed in 2008 and the District was subject to a 10% reduction in Medi-Cal payments for certain periods of time since the law went into effect. Additional laws passed affected the implementation of AB 5, and some laws replaced others. HDMC believes it will be subject to AB 5 as it is written for the fiscal years 2011 and 2010. Management has recorded charges to income in the amount of \$904,000 and \$459,000 for the years ended June 30, 2011 and 2010 respectively, to reflect the differences between actual costs and the 10% reduction.

California AB 90 implemented a Hospital Fee program, and Medi-Cal contractual adjustments were affected by the distribution of funds received from the program. This fee was levied on certain hospitals in California, which was then used to draw down the federal match for the Medicaid (Medi-Cal) program. The resulting income was redistributed to hospitals based on their Medi-Cal utilization. HDMC was exempt from the fee, being a Small Rural Hospital (SRH), but shared in the redistribution of the fee funds plus the federal match.

The fee was retroactive to April 1, 2009 and continued until December 31, 2010. Because of delayed implementation amounts received for the 21 month program were compressed into the fourth calendar quarter of 2010. The total received was \$1,245,739. This is augmented Medi-Cal revenue and was recorded as a reduction to the amount of contractual adjustments for the Medi-Cal program in the 2011 fiscal year. This program no longer is applicable to Non-Designated Public Hospitals such as HDMC, and no further funds will be received for AB 90.

Charity and bad debts maintained steady in fiscal 2011 at 7.9% of gross revenue. In fiscal 2010 the rate was also 7.9% of gross revenue which was an increase from 7.0% in 2010. These rates are reflective of the economic status of our service area and increased unemployment rates.

### **Net Patient Service Revenues**

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. These revenues increased by \$1,265,000 or 2.2 % in fiscal year 2011 over fiscal year 2010, increased \$2.9 million or 5.3% in fiscal year 2010 over 2009 and \$3.5 million or 7% in fiscal year 2009 over 2008.

## Operating Expenses

Total operating expenses were \$58.5 million for fiscal year 2011, compared to \$56.4 million for fiscal year 2010 and to \$52.0 million for fiscal year 2009. The major components of the operating expenses are:

- Salaries and wages comprise 43%, \$25,481,000, of total operating expenses in 2011. The District recognized the salary scale for Registered Nurses was falling behind its direct competition and a significant wage increase was given in March 2011. Additionally an employee bonus plan was initiated during the year to measure progress toward patient satisfaction. At June 30, 2011 employees were vested in a payout of \$202,000.

Salaries and wages comprised 43%, \$24,357,000, of total operating expenses in 2010. This was an increase of \$2,170,000 from 2009, but includes staff hired as District employees that replaced registry contract labor. A portion of the increase was for students who graduated from the local Copper Mountain College nursing programs and were hired and trained at District facilities before they could function independently. Another element of the increase was due to a year-end payroll accrual for a Board approved 2% employee bonus that was paid out in September. This was proposed by Administration to reward employees, as the 2010 merit wage increase freeze allowed the District to exceed budgeted earnings. This bonus totals \$416,000 in salaries for those employees meeting the requirements of the payout.

Salaries and wages comprised 43%, \$22,187,000, of total operating expenses in 2009. This was an increase of \$1,336,000 from 2008, but also included staff hired as District employees that replaced registry contract labor. Much of the increase was for students that graduated from the local Copper Mountain College nursing programs.

- Employee benefits are the second largest component of expenses (\$7,833,000), 13% of total expenses for 2011. Benefits include Paid Time Off (PTO) for employees. Benefits consistently constitute 13% of the Districts operating expenses, \$7,651,000 in fiscal 2010 and \$6,739,000 in fiscal 2009. Benefits as a percentage of wages paid were 30.7% in fiscal 2011, 31.4% in 2010, and 30.3% in 2009.
- The Patient Protection and Affordable Care Act (PPACA) passed during fiscal year 2010, includes several provisions for employers that affect health care costs for employees in the first year of passage. The District's self-insured Employee Health Plan adopted these provisions in the plan year beginning January 1, 2011. Two provisions which affect this and future expenses are the elimination of a lifetime maximum limit and the expansion of dependent coverage to age 26 regardless of student status. While there are known costs associated with these expanded benefits, the District will continue to account for the costs on a service incurred basis as is the norm for health plans and insurers. For the Fiscal year June 30, 2011 health insurance cost increased a modest 1.4% over 2010, but the PPACA requirements were in effect for only six months.
- Professional fees and contract labor in 2011 included physician fees and registry expense totaling \$6,045,000, 10% of total expense and 11% higher than 2010. Physician fees decreased to \$3,307,000 in fiscal 2011 from \$3,419,000 in fiscal 2010; mainly due to a significant decrease in the 29 Palms Rural Health Clinic. Contract labor including registry and legal fees increased by \$729,000 in fiscal 2011.

Professional fees and contract labor in 2010 included physician fees and registry expense totaling \$5,444,000, 10% of total expense and a 3% increase over 2009. Physician fees were \$3,419,000 27% higher than 2009, and reflects additional payments for on call services to the Emergency Department, the continued growth of physician services in the Rural Health Clinics (RHC). In addition, the introduction of the EA Health program was effective January 1, 2010 whereby

physicians are paid by the hospital for providing services to self pay and Medi-Cal patients seen in the Emergency Department when on-call.

Professional fees and contract labor totaled \$5,262,000, 10% of total expense in 2009 and a 2% increase over 2008. Physician fees were \$2,694,000, 9% higher than 2008, and reflected additional payments for on call services to the Emergency Department and the growth of physician services in the Rural Health Clinics (RHC). Fees were offset by continued efficiency in billing for the professional component in Radiology. Contract labor was \$2,568,000, 4% lower than 2008.

- Purchased services in fiscal 2011 were \$3,340, 000, a 2% decrease from the fiscal 2010 expense. 2010 had a \$291,000 increase over 2009. General maintenance and upkeep of the facility is directly responsible for over 60% of the fiscal 2010 increase.

Purchased services in 2009 had a \$743,000 decrease compared to 2008. The decrease was mainly due to the elimination of management fees paid to Brim.

- Supply expense accounted for 13% of expenses and totaled \$7,622,000 for fiscal 2011. This percentage is substantially the same as fiscal 2010 and 2009 which were also at 13% of expenses.

### **Non-operating Revenues and Expenses**

Non-operating revenues consist primarily of property taxes received from San Bernardino County and interest revenue and investment earnings on the District's investments. Non-operating expenses are primarily interest expense paid by the District and other business functions not directly related to the Medical Center's patient care mission.

The property taxes received are based on the assessed property values in the District. The amount of \$541,493 earned in 2011, \$573,431 earned in 2010 and \$609,839 in 2009 approximates a tax of two cents per one hundred dollars of assessed value. In California property tax obligations are encumbered January 1<sup>st</sup> for the subsequent fiscal year beginning July 1 through June 30<sup>th</sup>. This encumbrance is recorded as a receivable and an equal liability of deferred income. Property taxes received from the County have been reduced due to declining real estate values and property reassessments taking place. In addition, the State has "borrowed" 8% of the property taxes due the District in 2010, approximately \$49,000. This loan amount has been included in the 'District Tax Revenue' total and will be repaid by the State in two years with interest.

Investment income includes the interest received from fixed income securities, and the gain or loss on securities market value. The value of the investments is adjusted to market prices each month and may reflect gains or losses even though the actual security has not been sold.

### **Grants and Contributions**

In 2011 the District did not participate in any grant program.

In fiscal 2010 and 2009 the District was involved in two grants partnered with our Labor, Delivery, Recovery Program (LDRP department). These grants were involved with providing prenatal and breast feeding education and a drug and alcohol free education for pregnant mothers. Grant funds totaled \$97,000 in 2010, \$95,000 in 2009. These grants provided a necessary community benefit and the revenues offset the District's expense; however, both grants were completed as of June 30, 2010.

In fiscal year 2009, the District received a \$4.25 million distribution from the Elsinore Machris Gilliland Trust, via Hi-Desert Memorial Hospital, Inc. an unrelated charity. Hi-Desert Memorial Hospital, Inc. is

one of six charities bequeathed by the Trust and has been sharing 50% of their revenue with the District for many years. In October 2008 the Trust was liquidated and distributions were made to the charities. There is a modest amount of the distribution remaining with Hi-Desert Memorial Hospital, Inc. The District received \$120,000 from the charity in 2010 and \$5,000 in 2011.

### **Cash Flows**

Changes in the District's cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier. There was a decrease in cash of \$801,000 in fiscal 2011, a decrease of \$870,000 in 2010 and an increase in cash of \$531,000 in 2009. The construction projects and the procurement of computerized medical records systems discussed below have taken significant amounts of cash which was supplied by operations and by a \$2.5 million sale of investments in 2011.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2011, the District had \$15.4 million in capital assets, net of accumulated depreciation. In 2011, the District purchased new equipment and other capital assets totaling \$4,901,000. In fiscal 2010 the District spent \$2,076,146 to acquire capital assets, and in 2009 \$1,940,166 was spent to acquire new assets. Several projects are in progress and constitute a plan slated as Phase 1. This will include a waste treatment plant, a maintenance building, road and parking lot paving, and a support services annex. This will occur on owned property adjacent to the main hospital building, and is expected to cost \$7,058,000. \$980,000 has been spent with internal generated funds leaving a cost to complete of \$6,078,000. Support services that do not require a hospital presence will be relocated to the new buildings.

In May 2009, the Board of Directors approved the purchase of a 64 Slice Computed Tomography (CT) scanner to augment the existing single slice CT. During 2010 HDMC's second radiology room in the main building needed repair. Noting the transition of imaging exams to advanced imaging techniques it was decided not to replace the Radioscopy & Fluoroscopy room. A remodel of the area to house the existing ultrasound equipment has been completed and the second CT has been installed in the vacated ultrasound room. \$1,579,000 has been spent on the project, with a cost to complete of \$363,000 on the \$1.94 million total project. The 64 slice CT machine is expected to be operational in September 2011.

A plan slated as Phase 2 will proceed subsequent to Phase 1 mentioned above. This phase will consist of remodeling space vacated in the main hospital building to create an expanded pharmacy, a third surgical suite, additional acute care beds and an internal hallway to facilitate access to these areas. The estimated cost for this phase is \$12,835,000. The District has spent \$72,000 in planning for this phase as of June 30, 2011.

A third and fourth phase is anticipated subsequent to the completion which will replace the aged interior central utility plant and expand surgery, then add additional specialty beds.

The American Recovery and Reinvestment Act, and the Health Information Technology for Economic and Clinical Health (HITECH) acts of 2009 provided incentives for health care investments for electronic medical records systems that meet a "meaningful use" criterion. The District has capitalized \$204,000 for two of these systems in fiscal 2011, and has made progress payments of \$336,000 on two systems that are being implemented. Further additions to the electronic medical record are scheduled for fiscal 2012. By meeting the meaningful use criterion the District could receive aggregate federal funds of \$3.2 million in the years 2013 through 2016.

### **Debt**

At year-end, the District had \$13.2 million in revenue notes and capital lease obligations outstanding. The District issued no new debt in 2011, 2010 or 2009. The District's current debt is not rated.

The District is in the process of preparing a bond offering of \$8.7 million to finance the expansion of non-patient care construction (Phase 1) to expand the campus. The district may use the Cal-Mortgage program sponsored by the State of California to obtain bond insurance, depending on market conditions when the bonds are brought to market. This financing is expected to close in the second quarter of fiscal 2012.

Current plans also include placement of a \$15 million additional debt in 2013, for use in expanding patient care capacity in the main hospital building as described in the Phase 2 note above.

### **Subsequent Event**

On July 15, 2011 the District entered into a tax exempt loan agreement for \$8,560,000 with Banc of America for the purpose of redeeming the Series 1998 Bonds that remain outstanding. Concurrently the called Bonds were paid on the same date. These Bonds were to be completely paid in 2019, although the final year payment was in trust at Bank of New York. By recalling the bonds and obtaining the loan arrangement, the District will have a benefit of reducing interest expense by \$1,566,691 (present value \$1,411,319) over the 1998 Bond life.

Terms of the loan are at 2.43% interest. The agreement required the pledge of all the District's Fixed and Major Moveable equipment, and also a pledge of \$3,500,000 of investment grade holdings in the Districts' investment account. Funds are invested through RBC which has established a distinct account for this pledge. The investments can continue to be managed by Smith & Affiliates, as are the other funds at RBC. The pledge will be reduced as the amount of the loan outstanding is reduced.

### **Contacting Hi-Desert Memorial Health Care District Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to notate the District's accountability for the money it receives. If you have questions regarding this report or would like additional financial information, contact the Chief Financial Officer at (760)366-6421.

### **Community Benefit Reporting**

Although not required by law the District reports the community benefit of the Health Care District each year. The guidelines and standard definitions for the community benefit inventory for social accountability developed by the Catholic Health Association and VHA are widely accepted in the United States and the District uses those principles to determine the benefit reported here.

**Hi-Desert Medical Center**

**Community Benefit Reporting for the fiscal year ended:**

<b>Quantifiable Benefits:</b>	<u><b>June 30, 2011</b></u>	<u><b>June 30, 2010</b></u>	<u><b>June 30, 2009</b></u>
<b>Charity Care:</b> At Medical Center's Cost	\$ 1,236,000	\$ 1,125,394	\$ 657,000
<b>Bad Debt:</b> At Medical Center's Cost	3,432,000	2,887,606	2,296,000
<b>Government-Sponsored Health Care (Net Expense)</b>			
Unpaid Cost of County Medically Indigent Program	230,000	-	185,000
Unpaid Cost of Medi-Cal Managed Care	-	-	174,000
	<u>4,898,000</u>	<u>4,013,000</u>	<u>3,312,000</u>
<b>Community Benefit Programs (Net Expense):</b>			
<b>Community Health Services:</b>			
Community Health Education			
Health Education and Workshops	2,500	5,000	3,000
Health Information through media	38,000	38,000	33,000
Community Support Groups	3,600	5,000	3,000
Health Care Support Services			
Enrollment Assistance	66,000	48,000	40,000
Transportation to Prenatal & Behavioral Health Programs	51,000	41,000	42,000
Medical Transport	19,000	30,000	4,000
<b>Health Professions Education:</b>			
Nurses/Nursing Students			
Use of District Facilities	10,000	12,000	5,000
<b>Subsidized Health Services:</b>			
Hospice/Home Care/Adult Day Care			
Hospice Rental of Durable Medical Equipment for Patients	26,000	30,000	27,000
Behavioral Health Services			
Psychiatric Day Care	46,000	30,000	14,000
<b>Community-Building Activities:</b>			
Support System Enhancements			
Disaster Readiness	16,000	15,000	14,000
Environmental Improvements			
Waste Sterilization & Drug Disposal	64,000	58,000	9,000
Mohave Air & Water Quality Improvement	3,000		3,000
Workforce Enhancement			
Recruitment of Physicians for Federal Medically Underserved Areas. (Health Professional Shortage Area)	148,000	64,000	200,000
<b>Total Community Benefit Programs:</b>	<u><b>493,100</b></u>	<u><b>376,000</b></u>	<u><b>397,000</b></u>
<b>Total Quantifiable Community Benefit:</b>	<b>5,391,100</b>	<b>4,389,000</b>	<b>3,709,000</b>
<b>Less: Property Tax from Hi-Desert Memorial Health Care District:</b>	<u><b>(541,000)</b></u>	<u><b>(573,000)</b></u>	<u><b>(610,000)</b></u>
<b>Net Quantifiable Community Benefit:</b>	<u><u><b>\$ 4,850,100</b></u></u>	<u><u><b>\$ 3,816,000</b></u></u>	<u><u><b>\$ 3,099,000</b></u></u>

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Hi-Desert Memorial Health Care District

I have audited the accompanying financial statements of Hi-Desert Memorial Health Care District, which comprise the balance sheets as of June 30, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a reasonable basis for my audit opinion.

**OPINION**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hi-Desert Memorial Health Care District as of June 30, 2011 and 2010, 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.

## **INDEPENDENT AUDITOR'S REPORT (Continued)**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 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 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audits of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurances.



September 28, 2011

**BALANCE SHEETS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents – Note 3	\$ 1,696,106	\$ 2,497,324
Investments – Note 3	28,912,409	31,662,034
Patient accounts receivable, less estimated allowances for uncollectible accounts of \$6,280,000 in 2011 and \$6,744,000 in 2010 – Note 4	9,753,034	9,362,949
Other receivables – Note 5	1,917,667	1,406,583
Estimated third party settlements	327,414	291,236
Supplies	1,049,624	962,760
Prepaid expenses and deposits	<u>629,956</u>	<u>585,142</u>
<b>Total current assets</b>	<b>44,286,210</b>	<b>46,768,028</b>
<b>Investments – Note 3</b>	<b>1,715,731</b>	<b>1,742,648</b>
<b>Capital assets, net of accumulated depreciation – Note 6</b>	<b>17,105,602</b>	<b>15,365,742</b>
<b>Other non-current assets – Note 7</b>	<b><u>560,498</u></b>	<b><u>564,607</u></b>
<b>Total assets</b>	<b><u>\$63,668,041</u></b>	<b><u>\$64,441,025</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses – Note 8	\$ 6,845,808	\$ 6,284,480
Estimated third-party settlements	810,507	2,289,604
Deferred tax revenues	540,000	560,000
Current maturities of long-term debt – Note 9	<u>975,823</u>	<u>918,400</u>
<b>Total current liabilities</b>	<b>9,172,138</b>	<b>10,052,484</b>
<b>Long term debt, less current maturities – Note 9</b>	<b><u>12,220,229</u></b>	<b><u>13,065,743</u></b>
<b>Total liabilities</b>	<b>21,392,367</b>	<b>23,118,227</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	3,498,749	840,511
Restricted:		
Expendable for debt service	2,609,430	2,578,839
Expendable for specific operating activities	148,904	75,578
Expendable for capital assets	<u>10,936</u>	<u>15,136</u>
	2,769,270	2,669,553
Unrestricted	<u>36,007,655</u>	<u>37,812,734</u>
<b>Total net assets – Note 2</b>	<b><u>42,275,674</u></b>	<b><u>41,322,798</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$63,668,041</u></b>	<b><u>\$64,441,025</u></b>

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Operating revenues:</b>		
Patient service revenues, net of provision for uncollectible accounts; 2011 \$11,106,007 and 2010 \$10,325,180 – Note 10	\$58,455,681	\$57,190,212
Other revenues	<u>287,286</u>	<u>580,585</u>
<b>Total operating revenues</b>	<b><u>58,742,967</u></b>	<b><u>57,770,797</u></b>
<b>Operating expenses:</b>		
Salaries and wages	25,481,041	24,357,004
Employee benefits	7,833,278	7,651,539
Professional fees and contract labor	6,051,166	5,443,700
Supplies	7,622,070	7,546,879
Purchased services	3,341,802	3,409,675
Repairs and maintenance	2,004,627	1,856,118
Utilities and telephone	1,201,189	1,150,351
Building and equipment rent – Note 14	387,776	305,008
Insurance	558,564	382,116
Depreciation	3,113,144	3,296,850
Other	<u>922,990</u>	<u>984,823</u>
<b>Total operating expenses</b>	<b><u>58,517,647</u></b>	<b><u>56,384,063</u></b>
<b>Income from operations – Note 12</b>	<b>225,320</b>	<b>1,386,734</b>
<b>Non-operating revenues (expenses):</b>		
Tax revenues	541,493	573,431
Investment income – Note 3	950,573	1,712,245
Non-capital contributions	93,721	132,662
Interest expense	(882,594)	(1,003,509)
Loss on retirement and disposal of capital assets	<u>(16,927)</u>	<u>(6,253)</u>
<b>Total non-operating revenues, net</b>	<b><u>686,266</u></b>	<b><u>1,408,576</u></b>
<b>Income before capital contributions</b>	<b>911,586</b>	<b>2,795,310</b>
<b>Capital contributions</b>	<b><u>41,290</u></b>	<b><u>30,000</u></b>
<b>Increase in net assets</b>	<b>952,876</b>	<b>2,825,310</b>
<b>Net assets at beginning of year</b>	<b><u>41,322,798</u></b>	<b><u>38,497,488</u></b>
<b>Net assets at end of year</b>	<b><u><u>\$42,275,674</u></u></b>	<b><u><u>\$41,322,798</u></u></b>

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF CASH FLOWS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Cash received from patients and third-party payors	\$56,408,889	\$56,238,015
Cash received from others	254,078	615,252
Cash payments to employees and benefit programs	(32,695,199)	(31,927,394)
Cash payments to physicians, suppliers and others	<u>(22,195,620)</u>	<u>(20,810,948)</u>
<b>Net cash provided by operating activities – Note 12</b>	<b>1,772,148</b>	<b>4,114,925</b>
<b>Cash flows from non-capital financing activities:</b>		
Property taxes	547,096	531,702
Non-capital contributions	93,721	132,662
Intergovernmental transfer payments	<u>(367,835)</u>	<u>-0-</u>
<b>Net cash provided by non-capital financing activities</b>	<b>272,982</b>	<b>664,364</b>
<b>Cash flows from capital and related financing activities:</b>		
Purchases of capital assets	(4,900,982)	(2,076,146)
Principal paid on long-term debt	(918,377)	(871,061)
Interest paid on long-term debt	(813,492)	(861,873)
Capital contributions	<u>41,290</u>	<u>-0-</u>
<b>Net cash used for capital and related financing activities</b>	<b>(6,591,561)</b>	<b>(3,809,080)</b>
<b>Cash flows from investing activities:</b>		
Income received on cash deposits and investments	1,200,995	1,104,071
Net sales (purchases) of investments and other assets	<u>2,544,218</u>	<u>(2,943,852)</u>
<b>Net cash provided by (used for) investing activities</b>	<b><u>3,745,213</u></b>	<b><u>(1,839,781)</u></b>
<b>Net decrease in cash</b>	<b>(801,218)</b>	<b>(869,572)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b><u>2,497,324</u></b>	<b><u>3,366,896</u></b>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 1,696,106</u></b>	<b><u>\$ 2,497,324</u></b>

The accompanying notes are an integral part of these financial statements.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 1. DESCRIPTION OF ORGANIZATION**

**Reporting Entity and Nature of Operations**

Hi-Desert Memorial Health Care District (the District) is a political subdivision of the State of California organized under the State of California Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The District is governed by a separately elected Board of Directors and is considered the primary government for financial reporting purposes because it is a legally separate entity which is fiscally independent of other state and local governments.

The District owns and operates Hi-Desert Medical Center (the Center). The Center is located in Joshua Tree, California, and operates a 59-bed acute care facility, a 120-bed skilled nursing facility, a home health agency, and provides both inpatient and outpatient services to patients from Joshua Tree and surrounding communities. It also provides basic emergency services 24 hours per day and outpatient diagnostic and therapeutic services. The Center derives a significant portion of its revenues from third-party payors, including Medicare, Medi-Cal and commercial insurance organizations.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The District uses the proprietary method of accounting whereby revenues and expenses are recognized on the accrual basis. Revenues, expenses, gains and losses, and assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, investment income, interest expense and noncapital contributions are reported as nonoperating revenues and expenses.

The District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

During December, 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement, which is effective for financial statements for periods beginning after December 15, 2011, supersedes GASB Statement No. 20. When adopted, the provisions of GASB Statement No. 62 are generally required to be applied retroactively for all periods presented. Management is currently evaluating the effect on the District's financial statements of adopting Statement No. 62.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates and Evaluation of Subsequent Events**

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management of the District has evaluated events or transactions occurring after June 30, 2011 through September 28, 2011, the date the financial statements are issued.

**Cash Equivalents**

For purposes of the statements of cash flows, the District considers all short-term investments with original maturities of three months or less to be cash equivalent unless they are intended to be continuously invested. The District routinely invests its surplus operating funds in bank certificates of deposit or in money market mutual funds. The mutual funds generally invest in highly liquid U.S. government and agency obligations with limited market risk. At times, these investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

**Patient Accounts Receivable**

Patient accounts receivable for services provided to patients covered under the Medicare and Medicaid (Medi-Cal in California) programs, privately sponsored managed care programs for which payment is made based on terms defined under formal contracts, and other payors (including self-pay) are recorded at their estimated realizable values based on contractual billing rates or the Center's standard billing rates for non-contract payors. A provision for uncollectible accounts is provided based on management's evaluation of the collectibility of current accounts and historical trends. Finance charges or interest is not accrued for past due accounts.

Management believes there is no significant credit risks associated with receivables from government programs. Receivables from managed care programs and others are from various payors who are subject to differing economic conditions. They do not represent any concentrated credit risk to the District. Management continually monitors and adjusts the estimated allowances for contractual adjustments and uncollectible accounts.

**Supplies**

Supplies, which consist principally of medical and other supplies, are reported at cost determined by the first-in, first-out method, which is not in excess of market.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments**

Investments in debt and equity securities are reported at fair value. Fair value is determined using quoted market prices. Investment income includes interest and dividends and realized and unrealized gains and losses. Investment income is included in non-operating revenues when earned. Management reviews all investments to identify those with declines in value that would be considered other-than-temporary. When identified, such investment declines are accounted for as realized losses.

**Capital Assets**

The District's capital assets are reported on the basis of cost or in the case of donated items on the basis of fair value at the date of donation. Interest costs incurred on borrowed funds during construction of capital assets are capitalized as a component of the cost of acquiring those assets. Routine maintenance and repairs are charged to expense as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of 5 to 15 years for land improvements, 10 to 30 years for buildings and building improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment. Management has determined that no capital assets are significantly impaired.

**Bond Financing Costs**

Costs incurred in obtaining long-term financing are deferred and amortized over the terms of the related obligations on a straight-line basis.

**Compensated Absences**

Center policies permit most employees to accumulate paid time-off benefits that may be realized as paid time off when used or as a cash payment upon termination. Expense and the related liability are recognized as paid time-off benefits when earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

**Physician Income Guarantee Contracts**

The District accounts for physician income guarantee contracts under FASB guidelines which include guarantees granted to physicians that assure the revenue of the physicians will be at least a specified minimum amount. These guidelines require the Hospital to establish both an asset and a liability for the estimated fair value of its physician income guarantees at the inception of contracts entered into after January 1, 2006. The asset is amortized to expense using the straight-line amortization method over the life of the guarantee, while the liability is reduced by actual amounts paid on the guarantee.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Patient Service Revenues**

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods, as adjustments become known.

**Charity Care**

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, these amounts are deducted from gross patient service revenues and, therefore, are not reported as revenues.

**Tax Revenues**

Taxes for District operations are levied annually on the taxable property within the District. The District recognizes property taxes receivable when the enforceable legal claim arises (January 1) and recognizes revenues over the period for which the taxes are levied (July 1 to June 30). Tax revenues are nonexchange transactions that are reported as nonoperating revenues.

**Income Taxes**

As an essential government function of the State of California, the Center's activities are generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

**Grants and Contributions**

From time to time, the Center receives grants from various governmental agencies and private organizations. The Center also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Grants and contributions may be either unrestricted or restricted for either specific operating purposes or capital acquisitions. Grants and contributions are recognized when received and are reported as components of the statement of revenues, expenses and changes in net assets.

**Operating Revenues and Expenses**

The Center's statements of operations and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Center's principal activity. Operating expenses include all expenses incurred to provide health care services other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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; medical malpractice; and employee health, dental and accident benefits. With the exception of certain self-insured risks, commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District self-insures medical costs up to \$175,000 effective February 1, 2011, and \$150,000 prior thereto per employee per year under a noncontributory plan and insures against workers' compensation losses as a participant in the Association of California Hospital District's Alpha Fund, a self-insured risk pool. The District also maintains claims-made insurance coverage for its medical malpractice and general liability risks up to \$10,000,000 per claim and \$10,000,000 annual aggregate, subject to a per claim deductible of \$5,000.

The reserves for self-insured risk include provisions for estimated medical and dental, workers' compensation and medical malpractice and general liability costs for both reported claims and for claims incurred but not reported, in accordance with projections based on past experience. Such claims reserves are based upon the best data available to the District; however, there is at least a reasonable possibility that a material change to the estimates will occur in the near term. The estimates are continually monitored and reviewed, and as reserves are adjusted, the differences are reported in current operations. While the ultimate amount of medical and dental, workers' compensation and medical and general liability claims is dependent on future developments, management believes the associated liabilities recognized in the financial statements are adequate to cover such claims.

**Classification of Net Assets**

Net assets of the District are classified into three categories. *Invested in capital assets, net of related debt*, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. *Restricted net assets* consists of net assets with limits on their use that are externally imposed by creditors (such as through debt covenants), grantors, contributors or by laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. *Unrestricted net assets* consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 3. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME**

The carrying amounts of deposits and investments as of June 30, 2011 and 2010, are reported in the District's balance sheets as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents:		
Cash on hand	\$ 2,250	\$ 2,250
Deposits with financial institutions	<u>1,693,856</u>	<u>2,495,074</u>
	1,696,106	2,497,324
Investments	<u>30,625,845</u>	<u>33,404,682</u>
<b>Total deposits and investments</b>	<b><u>\$ 32,321,951</u></b>	<b><u>\$ 35,902,006</u></b>

**Deposits**

**Custodial credit risk** for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2011 and 2010, the carrying amounts of the District's deposits are \$1,693,856 and \$2,495,074, respectively. Balances on deposit in financial institutions at June 30, 2011, amounted to \$2,733,863, of which \$250,000 was covered by federal depository insurance and \$2,483,863 was collateralized. Balances in financial institutions at June 30, 2010, amounted to \$2,942,830, of which \$250,000 was covered by federal depository insurance and \$2,692,830 was collateralized.

**Investments**

The following table lists the investment types that are authorized by the District's investment policy and identifies certain provisions of the investment policy that address interest rate risk, credit risk and concentration of credit risk.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 3. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME (Continued)**

<u>Authorized Investment Type</u>	<u>Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
U.S. Treasury obligations	10 years	None	None
U.S. Agencies securities	10 years	None	None
Municipal bonds	10 years	None	None
Mortgage backed securities	10 years	20%	None
Corporate bonds and notes	10 years	30%	10%
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable certificates of deposit	5 years	30%	None
Money market mutual funds	N/A	20%	10%

The District's investments are reported at fair value as discussed in Note 2. At June 30, 2011 and 2010, the District has the following investments (including investments held by bond trustee) and maturities:

<u>Investment Type</u>	<u>June 30, 2011</u>				
	<u>Fair Value</u>	<u>Maturities in Year</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
U.S. Treasury obligations	\$ 6,593,023	\$ 204,900	\$ 6,388,123	\$ -0-	\$ -0-
U.S. Agencies securities	8,205,936	-0-	6,218,690	1,692,666	294,580
Mortgage backed securities	557,095	-0-	-0-	-0-	557,095
Corporate bonds and notes	11,288,773	-0-	9,168,854	1,315,291	804,628
Negotiable certificates of deposit	1,059,804	-0-	1,059,804	-0-	-0-
Money market mutual funds	2,923,509	2,923,509	-0-	-0-	-0-
<b>Total investments</b>	<b><u>\$ 30,628,140</u></b>	<b><u>\$ 3,128,409</u></b>	<b><u>\$ 22,835,471</u></b>	<b><u>\$ 3,007,957</u></b>	<b><u>\$ 1,656,303</u></b>

  

<u>Investment Type</u>	<u>June 30, 2010</u>				
	<u>Fair Value</u>	<u>Maturities in Year</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
U.S. Treasury obligations	\$ 8,652,990	\$ -0-	\$ 8,142,482	\$ 510,508	\$ -0-
U.S. Agencies securities	9,978,783	-0-	7,528,610	1,909,772	540,401
Mortgage backed securities	618,658	-0-	-0-	-0-	618,658
Corporate bonds and notes	9,781,761	-0-	7,379,231	1,600,188	802,342
Negotiable certificates of deposit	1,472,324	405,671	966,239	100,414	-0-
Money market mutual funds	2,900,166	2,900,166	-0-	-0-	-0-
<b>Total investments</b>	<b><u>\$ 33,404,682</u></b>	<b><u>\$ 3,305,837</u></b>	<b><u>\$ 24,016,562</u></b>	<b><u>\$ 4,120,882</u></b>	<b><u>\$ 1,961,401</u></b>

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 3. DEPOSITS, INVESTMENTS, AND INVESTMENT INCOME (Continued)**

**Interest rate risk** is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the preceding schedule that shows the distribution of the District's investments by maturity.

**Credit risk** is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment policy for corporate bonds and notes is to invest in companies with total assets in excess of \$500,000,000 and having an A or higher rating by Moody's Investor Service, Inc., or Standard and Poor's Corporation.

**Custodial credit risk** is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer), the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. At June 30, 2011, the District's investments are held by broker-dealers and a bank's trust department used by the District to buy the securities.

**Concentration of credit risk** is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District has the following investments in a single issuer in excess of 5% of total investments as of June 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>	
Federal Home Loan Mortgage Corporation	\$ 3,607,484	11.8%	\$ 1,855,526	5.6%
Federal Farm Credit Bank	3,053,079	10.0%	3,918,829	11.7%
Federal National Mortgage Association	-0-		2,514,069	7.5%

**Foreign currency risk** relates to adverse affects on the fair value of an investment from changes in exchange rates. The District has no investments denominated in foreign currency at June 30, 2011 and 2010.

The carrying values of investments shown above are included in the balance sheets as follows:

	<u>2011</u>	<u>2010</u>
<b>Carrying values are reported in the following balance sheet categories:</b>		
Current assets	\$ 28,912,409	\$31,662,034
Non-current assets	<u>1,715,731</u>	<u>1,742,648</u>
<b>Total investments</b>	<b><u>\$ 30,628,140</u></b>	<b><u>\$ 33,404,682</u></b>

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 3. DEPOSITS, INVESTMENTS, AND INVESTMENT INCOME (Continued)**

**Investment Income**

Investment income for the years ended June 30, 2011 and 2010, consists of:

	<u>2011</u>	<u>2010</u>
Interest, dividends, and realized gains and losses	\$ 1,182,897	\$ 1,093,579
Net increase (decrease) in fair value of investments	<u>(232,324)</u>	<u>618,666</u>
<b>Total investment income</b>	<b><u>\$ 950,573</u></b>	<b><u>\$ 1,712,245</u></b>

**NOTE 4. PATIENT ACCOUNTS RECEIVABLE**

The Center grants credit without collateral to its patients, most of who are area residents and are insured under third-party payor agreements. Patient accounts receivable from government agencies represent the only concentration of credit risk for the Center and management does not believe there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors (including individuals) involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risks to the Center. Concentrations of patient accounts receivable at June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 2,302,906	\$ 2,144,563
Medi-Cal	3,109,951	3,590,684
Other third-party payors	3,308,625	2,509,614
Patients	<u>1,031,552</u>	<u>1,118,088</u>
<b>Total net patient accounts receivable</b>	<b><u>\$ 9,753,034</u></b>	<b><u>\$ 9,362,949</u></b>

**NOTE 5. OTHER RECEIVABLES**

Other receivables consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Property taxes	\$ 597,719	\$ 623,322
Medi-Cal and other disproportionate share funds	527,919	166,429
Recoverable Intergovernmental Transfer payments	367,835	-0-
Self-insured health plan stop-loss recoveries	184,285	392,376
Accrued investment income	142,787	160,885
Other	<u>97,122</u>	<u>63,571</u>
<b>Total other receivables</b>	<b><u>\$ 1,917,667</u></b>	<b><u>\$ 1,406,583</u></b>



**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 6. CAPITAL ASSETS (Continued)**

**Construction Work in Progress**

At June 30, 2011, the estimated cost to complete construction work in progress is approximately \$8,529,000. Planned financing will be from an \$8,700,000 revenue bond issue (see Note 14) and internally generated funds.

**NOTE 7. OTHER NON-CURRENT ASSETS**

At June 30, 2011 and 2010, other non-current assets consists of the following deferred expenses:

	<u>2011</u>	<u>2010</u>
Unamortized bond issue costs	\$ 324,374	\$ 350,996
Prepaid physician recruiting costs	31,311	8,798
Land not used in operations	<u>204,813</u>	<u>204,813</u>
<b>Total other non-current assets</b>	<b><u>\$ 560,498</u></b>	<b><u>\$ 564,607</u></b>

**NOTE 8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Due vendors and others	\$ 2,764,297	\$ 2,596,531
Accrued payroll and related benefits	2,979,042	2,777,012
Reserves for self-insured risks	500,000	291,000
Estimated Medicare RAC audit recovery	220,000	-0-
Accrued interest	196,277	208,113
Refunds and credit balances in patient accounts receivable	167,206	247,318
Other	<u>18,986</u>	<u>164,506</u>
<b>Total accounts payable and accrued expenses</b>	<b><u>\$ 6,845,808</u></b>	<b><u>\$ 6,284,480</u></b>

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 9. LONG-TERM DEBT**

The following is a summary of long-term debt transactions for the District for the years ended June 30, 2011 and 2010:

	<u>2011</u>			
	<u>Beginning</u> <u>Balances</u>	<u>Additions</u> <u>(Payments)</u>	<u>Ending</u> <u>Balances</u>	<u>Current</u> <u>Maturities</u>
Refunding Revenue				
Bonds, Series 1998	\$ 10,040,000	\$ (780,000)	\$ 9,260,000	\$ 825,000
Less deferred loss on refunding	<u>(745,901)</u>	<u>130,286</u>	<u>(615,615)</u>	<u>-0-</u>
	<b>9,294,099</b>	<b>(649,714)</b>	<b>8,644,385</b>	<b>825,000</b>
Revenue Bonds, Series				
2002	4,585,000	(95,000)	4,490,000	105,000
Equipment contract				
payable	<u>105,044</u>	<u>(43,377)</u>	<u>61,667</u>	<u>45,823</u>
<b>Total long-term</b> <b>debt</b>	<b><u>\$ 13,984,143</u></b>	<b><u>\$ (788,091)</u></b>	<b><u>\$ 13,196,052</u></b>	<b><u>\$ 975,823</u></b>
	<u>2010</u>			
	<u>Beginning</u> <u>Balances</u>	<u>Additions</u> <u>(Payments)</u>	<u>Ending</u> <u>Balances</u>	<u>Current</u> <u>Maturities</u>
Refunding Revenue				
Bonds, Series 1998	\$ 10,780,000	\$ (740,000)	\$ 10,040,000	\$ 780,000
Less deferred loss on refunding	<u>(885,381)</u>	<u>139,480</u>	<u>(745,901)</u>	<u>-0-</u>
	<b>9,894,619</b>	<b>(600,520)</b>	<b>9,294,099</b>	<b>780,000</b>
Revenue Bonds, Series				
2002	4,675,000	(90,000)	4,585,000	95,000
Equipment contract				
payable	<u>146,105</u>	<u>(41,061)</u>	<u>105,044</u>	<u>43,400</u>
<b>Total long-term</b> <b>debt</b>	<b><u>\$ 14,715,724</u></b>	<b><u>\$ (731,581)</u></b>	<b><u>\$ 13,984,143</u></b>	<b><u>\$ 918,400</u></b>

**Revenue Bonds Payable**

The revenue bonds payable consist of Refunding Revenue Bonds, Series 1998 (Series 1998, Revenue Bonds) in the original amount of \$16,470,000 dated September 15, 1998, and Revenue Bonds, Series 2002, in the original amount of \$5,000,000 dated May 15, 2002. The Series 1998 Revenue Bonds bear interest at 5.1% to 5.5% and the Series 2002 Revenue Bonds bear interest at 5.8% to 6.25%. Interest is payable semi-annually and principal is payable annually.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as investments held by trustee for debt service in the balance sheet. The indenture agreements also require the District to comply with certain restrictive covenants, including minimum insurance coverage, maintaining an annual debt service coverage ratio of 1.25 to 1.00 (1.10 to 1.00 if the District maintains at least 75 days cash on hand) and restrictions on incurrence of additional debt. The District is in compliance with the restrictive covenants for 2011 and 2010.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 9. LONG-TERM DEBT (Continued)**

**Equipment Contract Payable**

The equipment contract payable requires monthly payments of \$4,006 through October 2012 at a 5.5% interest rate. The contract is secured by capital equipment.

**Interest Costs During Construction**

In 2011 and 2010, the District capitalized \$75,951 and \$13,261, respectively, of interest costs incurred on borrowed funds during construction of long-lived capital assets.

**Debt Service Requirements**

Debt service requirements as of June 30, 2011, are as follows:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 1,737,900	\$ 975,800	\$ 762,100
2013	1,703,600	995,800	707,800
2014	1,682,100	1,030,000	652,100
2015	1,678,500	1,085,000	593,500
2016	1,681,500	1,150,000	531,500
2017 – 2021	6,781,500	5,440,000	1,341,500
2022 – 2026	1,864,500	1,040,000	824,500
2027 – 2031	1,850,200	1,405,000	445,200
2032 – 2033	<u>733,800</u>	<u>690,000</u>	<u>43,800</u>
<b>Total debt service requirements</b>	<b><u>\$19,713,600</u></b>	<b><u>\$13,811,600</u></b>	<b><u>\$ 5,902,000</u></b>

**Subsequent Event**

On July 1, 2011, the District entered into a master lease agreement with Banc of America Public Capital Corp. and on July 13, 2011, \$8,560,000 was disbursed as follows:

To bond trustee for retirement of Refunding Revenue Bonds, Series 1998		\$ 7,327,003
To District for reimbursement of:		
Cost of new CT Scanner	\$ 1,147,221	
Costs of insurance	<u>85,776</u>	<u>1,232,997</u>
		<b><u>\$ 8,560,000</u></b>

The master lease agreement is collateralized by capital equipment, including the new CT Scanner and a pledge of securities valued at no less than \$3,500,000. The outstanding balance is repayable in 84 monthly installments of \$110,920 each, including interest at 2.43%.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 10. NET PATIENT SERVICE REVENUES**

The Center has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Medicare and Medi-Cal settlements are estimated and recorded in the financial statements in the year services are provided. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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. Changes in Medicare, Medi-Cal or other programs or the reduction of program funding could have an adverse impact on future net patient service revenues. A summary of the payment arrangements with major third-party payors follows.

**Medicare:** Payments for most services rendered to Medicare program beneficiaries are based on prospectively determined rates. Inpatient acute rates vary according to a patient diagnostic classification system and skilled nursing care and outpatient services are paid at rates based upon resource utilization or specific procedures performed. Medicare settlements are estimated and recorded in the financial statements in the year in which they occur. The estimated settlements recorded at June 30, 2011, could differ from actual settlements based on the results of cost report audits. As of June 30, 2011, Medicare cost reports through June 30, 2009, have been audited or otherwise settled.

**RAC audits**

During 2011, the Center was contracted by the Recovery Audit Contractor (RAC) under authority of the Centers for Medicare and Medicaid Services (CMS). CMS contracts with RACs on a contingency basis to conduct post-payment reviews of Medicare claims to detect and correct improper payments in the fee-for-service Medicare program. CMS implemented the RAC program on a permanent, nationwide basis in 2010/2011, as required by statute.

The RAC has selected samples of claims for Medicare patients treated during the period from 2008 to 2011 and appears to be focused on certain discharge diagnoses and one-day/two-day stays. Medicare payments related to the samples selected thus far amount to approximately \$1,142,000 of which \$115,175 has been recouped as of June 30, 2011. Management has reviewed claims denied by the RAC and believes it is probable that additional losses will occur when the RAC completes its review. Accordingly, a RAC reserve for \$220,000 has been established as of June 30, 2011. While the RAC has not notified the Center of expanded reviews of its Medicare claims, it is reasonably possible that additional claims for recovery may occur.

**Medi-Cal:** Payments for inpatient services rendered to Medi-Cal patients are based on allowable costs while outpatient payment is based on pre-determined charge screens. The Center is paid for Medi-Cal services at tentative rates with final settlements determined after submission of cost reports by the Center and audits thereof by Medi-Cal representatives. As of June 30, 2010, the Center's Medi-Cal cost reports have been audited or otherwise settled through June 30, 2009.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 10. NET PATIENT SERVICE REVENUES (Continued)**

**Hospital fee program**

In January 2010, the State of California enacted legislation that provides for supplemental Medi-Cal payments to certain hospitals funded by a quality assurance fee paid by participating hospitals as well as matching federal funds (“the Hospital Fee Program”). In September 2010, this legislation was amended at the request of CMS and, in October 2010, CMS substantially approved the program and the California Department of Health Care Services (DHCS) began its implementation. On February 17, 2011, DHCS determined that all final program approvals were obtained from CMS effective December 30, 2010. The supplemental Medi-Cal payments encompass fee-for-service payments directly from DHCS as well as payments routed through managed care health plans. Supplemental Medi-Cal payments and fees related to the Hospital Fee Program cover the period from April 1, 2009 through December 31, 2010.

As a non-designated public hospital, the Center received supplemental Medi-Cal payments of \$1,245,739 under the Hospital Fee Program during the year ended June 30, 2011. These payments are reported as Medi-Cal net service revenues because they are based on the provision of services to patients. Beginning July 1, 2011, the Center will no longer receive supplemental Medi-Cal payments under the Hospital Fee Program.

**Limits on reimbursement**

In 2008, California Assembly Bill 5 (AB-5) added statutes that limit Medi-Cal payments from the Department of Health Care Services (DHCS) to 90% of reimbursable costs for inpatient services effective July 1, 2009, and continuing through June 30, 2011. Several lawsuits have been initiated against DHCS by the California Hospital Association and member hospitals to overturn this statute. Despite a preliminary injunction against DHCS’s implementation of AB-5’s Medi-Cal payment limitation, the statute is still in effect. Apparently the U.S. Supreme Court has indicated it is willing to hear this case but no trial date has been set. Because the statute is in effect, management has provided (reduced net Medi-Cal revenues) \$905,000 and \$441,520 in 2011 and 2010, respectively, for estimated Medi-Cal payments in excess of the 90% limit.

**Others:** Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 10. NET PATIENT SERVICE REVENUES (Continued)**

Net patient service revenues for the years ended June 30, 2011 and 2010 are as follows:

	<u><b>2011</b></u>	<u><b>2010</b></u>
Patient service revenues at established charge rates:		
Services provided to Medicare patients	\$ 54,885,256	\$ 59,692,215
Services provided to Medi-Cal patients	66,540,361	69,291,739
Services provided to other patients	<u>66,824,438</u>	<u>66,502,105</u>
<b>Gross patient service revenues</b>	<b><u>188,250,055</u></b>	<b><u>195,486,059</u></b>
Less contractual adjustments and provision for uncollectible accounts	<u>(129,794,374)</u>	<u>(138,295,847)</u>
<b>Net patient service revenues</b>	<b><u>\$ 58,455,681</u></b>	<b><u>\$ 57,190,212</u></b>

**NOTE 11. RETIREMENT PLANS**

The District provides a single employer defined contribution pension plan covering regular full-time employees who are at least 21 years old and have six months' service with the Center. Employer funding into the plan is based on a contribution level equal to 1% of compensation, plus 1% of compensation in excess of the Social Security Compensation Base in effect at the beginning of each plan year. The plan complies with section 401a of the Internal Revenue Service. The Center also funds a matching contribution equal to 50% of the employee's contributions made into a 457 Deferred Compensation Plan. Deferrals in excess of 4% are not matched. The Center's matching 457 plan contributions are deposited into the 401a plan. All funds of the plans are maintained and administered by the Variable Annuity Life Insurance Company (VALIC) and ING/Aetna Financial Services. Employees become fully vested in their accounts after five years of service. The Center's contributions to the plans for the years ended June 30, 2011 and 2010 are \$430,234 and \$363,320, respectively.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 12. CASH FLOWS**

The District reports cash flows from operating activities using the direct method. The reconciliations of income (loss) from operations to net cash provided by (used for) operating activities for the years ended June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
<b>Income from operations</b>	<b>\$ 225,320</b>	<b>\$ 1,386,734</b>
Depreciation	3,113,144	3,296,850
Provision for bad debts	11,106,007	10,325,180
Reserves for self-insured loss programs and RAC audits	429,000	(431,000)
Changes in operating assets and liabilities:		
Accounts receivable	(11,683,042)	(11,748,867)
Supplies	(86,864)	(38,977)
Prepaid expenses and other assets	39,674	(29,226)
Accounts payable and accrued expenses	144,184	1,240,440
Estimated third-party settlements	<u>(1,515,275)</u>	<u>113,791</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 1,772,148</u></b>	<b><u>\$ 4,114,925</u></b>

**NOTE 13. TRANSACTIONS WITH RELATED CORPORATIONS**

Hi-Desert Medical Center Auxiliary (Auxiliary) and Hi-Desert Medical Center Foundation (Foundation) are authorized by the District to solicit contributions on behalf of the Center. In the absence of donor restrictions, the Auxiliary and Foundation have discretionary control over the amounts, timing and use of their distributions. The Auxiliary and Foundation are not considered component units of the District because management believes the resources of the corporations are not significant to the District.

At June 30, 2011 and 2010, the unaudited financial statements of the corporations reported the following net assets:

	<u>2011</u>	<u>2010</u>
Auxiliary	\$ 356,980	\$ 302,943
Foundation	<u>52,679</u>	<u>57,550</u>
	<b><u>\$ 409,659</u></b>	<b><u>\$ 360,493</u></b>

During the years ended June 30, 2011 and 2010, the District recorded the following contributions from the corporations:

	<u>2011</u>	<u>2010</u>
Auxiliary	\$ 36,194	\$ 30,176
Foundation	<u>14,674</u>	<u>1,482</u>
	<b><u>\$ 50,868</u></b>	<b><u>\$ 31,658</u></b>

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 13. TRANSACTIONS WITH RELATED CORPORATIONS (Continued)**

On May 9, 2011, Hi-Desert Memorial Health Care District Foundation (new Foundation) was formed by the District. The new Foundation is a California nonprofit public benefit corporation whose purposes are (1) to develop resources, funding and community support for the benefit of the District, (2) to solicit and maintain gifts of money and property and to distribute money and property to the District for use in its operations and expansion of health care systems in the community, (3) to engage in and conduct charitable activities and, (4) to promote and carry on such activities as may be deemed advisable for the betterment of the general health of the communities it serves. The new Foundation had no operating activities through June 30, 2011.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

**Hospital Expansion Project**

Management has completed a master site plan for the Center in order to address seismic retrofit requirements and the need to increase capacity for patient care in the main hospital building. A multi-phase project is currently underway. The first phase includes construction of a waste water treatment facility, a maintenance building, a professional office building, and road and parking improvements.

Phase two of the project will include the build-out of vacated space in the main hospital building to accommodate an expanded pharmacy, expanded central sterile facilities, relocation of laboratory services to an existing outpatient building, renovation and relocation of certain departments and the addition of a new central corridor in the Center. Estimated costs to complete the phase one and phase two projects currently in progress are \$7,616,000 at June 30, 2011, and management expects to finance construction with proceeds from a revenue bond issue (\$8,700,000 during the second-quarter of fiscal 2012) and internally generated funds.

Management estimates the phase two project will cost approximately \$12,835,000 and expects to finance phase two with proceeds of another revenue bond issue of approximately \$15,000,000, a capital campaign, and internally generated funds. The phase three and four projects will include replacing plant operations with a new central utility plant and an expansion of surgery services. Management estimates that phases three and four will cost approximately \$31,218,000. Funding sources are yet to be determined.

**Self-insured Medical Plan**

On March 23, 2010, the President signed the "Patient Protection and Affordable Care Act" and on March 30, 2010, signed the "Health Care and Education Reconciliation Act of 2011." Both of these federal laws are commonly referred to as "health care reform." Management believes the District's self-insured medical plan is subject to the private insurance reforms of the law. Among other things, the law bans lifetime limits, rescission practices and coverage denial for pre-existing conditions for children. It also limits waiting periods, requires coverage of dependents up to age 26 and restricts annual limits. Beginning in 2014, the law bans pre-existing condition exclusions and all annual limits in group health plans. Management believes health care reform will significantly increase the costs of providing health care coverage under its current plan.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 14. COMMITMENTS AND CONTINGENCIES (Continued)**

**Operating Leases and Minimum Supply Purchase Agreement**

The District leases certain facilities and equipment under long-term, non-cancelable operating lease agreements and, beginning in 2008, agreed to purchase a minimum annual amount of supplies from a vendor over five years. Following is a schedule by year of future minimum lease payments and supply purchases as of June 30, 2010, under operating leases that have initial or remaining terms in excess of one year and the supply purchase agreement:

<b><u>Year Ending</u></b> <b><u>June 30,</u></b>	<b><u>Operating</u></b> <b><u>Leases</u></b>	<b><u>Supply</u></b> <b><u>Purchases</u></b>
2012	\$ 118,000	\$ 317,800
2013	79,000	293,000
2014	<u>13,000</u>	<u>          </u>
	<b><u>\$ 210,000</u></b>	<b><u>\$ 610,800</u></b>

**Litigation / Regulation**

The District is subject to lawsuits and other claims covering a wide range of matters that arise in the ordinary course of business. When evaluating required reserves related to these items, the District's management carefully analyzes each issue and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. Reserves are monitored on an ongoing basis and are updated based on new developments or new information in each matter.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. 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. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received.

**NOTES TO FINANCIAL STATEMENTS**  
**HI-DESERT MEMORIAL HEALTH CARE DISTRICT**  
**Years Ended June 30, 2011 and 2010**

**NOTE 15. UNCOMPENSATED CARE (Unaudited)**

The Center's policy is to provide service to all who require it, regardless of their ability to pay. As such, it provides substantial amounts of uncompensated care. When this care is provided to patients who lack financial resources (and therefore are deemed medically indigent), it is classified as charity care. When services are provided to patients who have the means to pay, but decline to do so, unpaid charges are classified as provision for uncollectible accounts. Neither charity care nor the provision for uncollectible accounts is reflected in net patient service revenues.

In addition, the Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients and frequently the payments are less than the cost of rendering the services. Finally, some undetermined portion of the provision for uncollectible accounts represents care to indigent patients who the Center has been unable to identify.

Uncompensated charges relating to these services are as follows:

	<u><b>2011</b></u>	<u><b>2010</b></u>
Charity allowances	\$ 4,000,156	\$ 3,608,912
State Medi-Cal and other public aid programs	45,617,000	45,710,991
Provision for uncollectible accounts	<u>11,106,007</u>	<u>10,325,180</u>
	<u><b>\$ 60,723,163</b></u>	<u><b>\$ 59,645,085</b></u>
 <b>Uncompensated charges as a percentage of gross patient service revenues</b>	 <u><b>31.6%</b></u>	 <u><b>30.0%</b></u>

Estimated unreimbursed costs (determined by the use of cost/charges ratio techniques) related to the uncompensated charges described above amount to approximately \$4,898,000 in 2011 and \$4,013,000 in 2010.