

# Mountains Community Hospital

## Fiscal Year 2012

### Operating Budget Assumptions

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#### Gross Patient Charges:

Department	Assumption	Notes
Medical Surgical	Average Daily Census = 2.00	Price increases effective 4/15/11
Swing	Average Daily Census = 1.30	Price increases effective 4/15/11
Skilled Nursing Facility	Average Daily Census = 19.50	<b>Does not include possible California budget cut for Medi-Cal (28%)</b>
Emergency Room	Same volume & seasonality as Fiscal Year 2011	Price changes were made during Fiscal Year 2011. The average price per visit represents the average for March/April.
Rural Health Clinic – Lake Arrowhead	579 visits/month	Represents average visits per month for Fiscal Year 2011. Note - TelePsychiatry started in Dec. 2010. Average visits per month were calculated using January-May 2011.
Rural Health Clinic – Running Springs	90 visits/month	Represents average visits per month for Fiscal Year 2011.
Surgery	25 surgeries/month	Surgeries have decreased from 44 (July 2010) to 23 (April 2011). Pricing changes made in May 2011.
Anesthesia	25 surgeries/month (estimate 88% use anesthesia) plus 11 chronic pain treatment cases/month	Pricing changes made in May 2011.
Laboratory	Same volume as Fiscal Year 2011 (165,000 lab tests excluding send outs)	Tests were allocated to months following budgeted seasonality for the Emergency Room.
Radiology	Same volume as Fiscal Year 2011	CT Scans of the abdomen and pelvis are now charged as one exam. This resulted in a significant decrease in revenue.
Physical Therapy	Same volume as Fiscal Year 2011 (4,500 visits/year) with expected seasonality	
Respiratory Therapy	Fiscal Year 2011 average monthly charges increased for June 2011 price changes	Pricing changes made in June 2011.
Pharmacy, Central Supply, Blood, Speech and Occupational Therapy	Fiscal Year 2011 average monthly charges	

# Mountains Community Hospital

## Fiscal Year 2012

### Operating Budget Assumptions

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#### Deductions from Revenue:

Contractual discounts	53% of Gross Patient Charges
Bad Debt expense	7% of Gross Patient Charges
Medi-Cal Outpatient Supplemental Reimbursement	\$450,000 revenue/year (budgeted in Period 12)
Hospital Fee Program	\$150,000 revenue/year (budgeted in Period 12)
Medi-Cal DSH	\$70,000 revenue/year
Medicare Cost report reserve	\$100,000/year
Medi-Cal Cost report reserve	\$50,000/year

#### Other Operating Revenue:

Pharmacy (ECRC patients - Medicare Part D), Cafeteria sales, nonpatient drug sales, rebates and refunds, draw fees (Quest), home health agencies, meals on wheels	\$25,000/month
Refunds (workers' compensation & malpractice)	\$15,000/year (workers' compensation)

#### Operating Expenses:

Salaries and wages	<ul style="list-style-type: none"> <li>• Approved staffing levels</li> <li>• Annual increases 0%-5% (July 2011)</li> <li>• Includes PTO to be earned</li> </ul>
Employee benefits: <ul style="list-style-type: none"> <li>• Employer share of FICA</li> <li>• Health</li> <li>• Retirement</li> <li>• Workers' Compensation</li> <li>• Unemployment</li> <li>• Life</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>• 7.65% Gross Wages</li> <li>• Changed Health Plan resulting in a decrease in costs of \$60,000</li> <li>• 2.89% Gross Wages (excluding PTO expense)</li> <li>• Alpha Fund increased our premiums by 9%</li> <li>• SUI Wages multiplied by 5.7%</li> <li>• No change from prior year</li> <li>• Holiday party (\$15,000), Jensen's gift cards (\$5,000), \$400 month misc.</li> </ul>

# Mountains Community Hospital

## Fiscal Year 2012

### Operating Budget Assumptions

<b>Professional Fees:</b> <ul style="list-style-type: none"> <li>• Medical Directorships &amp; Chief of Staff</li> <li>• Emergency Room Physician Coverage (standby time and hospitalists)</li> <li>• Emergency Room On-Call</li> <li>• Rural Health Clinic Providers</li> <li>• Contract Therapists</li>   <li>• Consulting fees</li>   <li>• Legal fees</li> <li>• Audit fees</li> </ul>	<ul style="list-style-type: none"> <li>• \$10,000/month</li> <li>• \$29,000/month plus hospitalist fees</li>   <li>• \$10,500/month (primarily surgeons)</li> <li>• Physicians and Dentists</li> <li>• Pharmacist, CRNA, Lab Techs, Rural Health Clinic – Psychologists &amp; Telemedicine Psychologists and Psychiatrists, Speech &amp; Occupational Therapists</li> <li>• Dietician, Cost Reports (annual &amp; interim), Medi-Cal outpatient supplemental reimbursement, annual disclosure report, IT projects, Charge Description Master</li> <li>• \$6,000/month</li> <li>• 3-Year Proposal</li> </ul>
<b>Supplies</b>	<ul style="list-style-type: none"> <li>• Decreases <ul style="list-style-type: none"> <li>○ Pharmaceuticals <ul style="list-style-type: none"> <li>▪ 4.0% discount effective August 2011 (new contract)</li> </ul> </li> <li>○ Surgery <ul style="list-style-type: none"> <li>▪ Certain surgical supplies were decreased due to decrease in utilization</li> </ul> </li> </ul> </li> <li>• Increases <ul style="list-style-type: none"> <li>○ 4% price increase for one vendor (per correspondence)</li> <li>○ 1% price increase applied to remaining supplies</li> </ul> </li> </ul>
<b>Purchased Services:</b> <ul style="list-style-type: none"> <li>• Outsourced department – Housekeeping</li> <li>• Outsourced department – Laundry</li> <li>• Collection agency fees</li> <li>• Lab send outs</li> <li>• Transcription</li> </ul>	<ul style="list-style-type: none"> <li>• 2.5% increase in April</li> <li>• Anticipated increased usage</li> </ul>
<b>Rent:</b> <ul style="list-style-type: none"> <li>• Building</li> <li>• Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• 4% increase in January</li> </ul>

# Mountains Community Hospital

## Fiscal Year 2012

### Operating Budget Assumptions

Repairs and Maintenance: <ul style="list-style-type: none"> <li>Preventive Maintenance agreements</li> <li>Repairs</li> </ul>	<ul style="list-style-type: none"> <li>Contract rates</li> <li>Based upon Fiscal Year 2011 experience (excluding nonrecurring items)</li> </ul>
Utilities	<ul style="list-style-type: none"> <li>Increased 2% &amp; adjusted for seasonal fluctuations</li> </ul>
Insurance <ul style="list-style-type: none"> <li>Malpractice</li> <li>Directors &amp; Officers</li> <li>Automobile</li> <li>Property</li> </ul>	<ul style="list-style-type: none"> <li>3% decrease (due to improved loss experience)</li> <li>Unchanged</li> <li>Unchanged</li> <li>Unchanged</li> </ul>
Depreciation	<ul style="list-style-type: none"> <li>System generated projection adjusted for known and anticipated additions</li> </ul>
Other: <ul style="list-style-type: none"> <li>Advertising</li> <li>Taxes and License</li> <li>Dues &amp; Subscriptions</li> <li>Travel and Training</li> <li>Recruiting <ul style="list-style-type: none"> <li>Physician Income Guarantee</li> <li>Hospital Employment</li> </ul> </li> <li>Freight</li> </ul>	<ul style="list-style-type: none"> <li>2 Newsletters, weekly columns in the Mountain news, web hosting. Note – The weekly column will be written by Hospital staff beginning in Quarter 2. Web hosting will also be taken in house in Quarter 2.</li> <li>Sales Taxes on purchases, Hospital License, other licenses</li> <li>CHA, ACHD, TJC, AHA</li> <li>Consistent with Fiscal Year 2011</li> <li>\$11,000/month</li> <li>\$500/month</li> <li>Consistent with Fiscal Year 2011</li> </ul>

#### Non-Operating Revenue (Expenses):

District Tax Revenue	<ul style="list-style-type: none"> <li>\$225,000/month (\$2,700,000/year)</li> </ul>
Investment Income	<ul style="list-style-type: none"> <li>\$3,500/month</li> </ul>
Interest Expense <ul style="list-style-type: none"> <li>2007 Certificates of Participation</li> </ul>	<ul style="list-style-type: none"> <li>Scheduled</li> </ul>
Non-Capital Grants/Contributions	<ul style="list-style-type: none"> <li>Consistent with Fiscal Year 2011</li> </ul>
Other Non-Operating Income <ul style="list-style-type: none"> <li>Cellular Site Rent</li> <li>Timeshare rent</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with Fiscal Year 2011</li> <li>Two physicians twice/week</li> </ul>

Mountains Community Hospital District  
Budgeted Statement of Revenue and Expenses  
Fiscal Year 2012

**REVENUE:**

GROSS PATIENT SERVICE REVENUE	31,448,808
PROVISION FOR CONTRACTUAL DISCOUNTS & BAD DEBTS	<u>(18,349,297)</u>
NET PATIENT SERVICE REVENUE	13,099,511
OTHER OPERATING REVENUE	<u>316,860</u>
TOTAL REVENUE	<u>13,416,371</u>

**EXPENSES:**

SALARIES AND WAGES	7,109,146
EMPLOYEE BENEFITS	1,566,725
PROFESSIONAL FEES	1,789,622
SUPPLIES	1,756,200
PURCHASED SERVICES	555,028
RENT	265,124
REPAIRS & MAINTENANCE	489,365
UTILITIES	332,460
INSURANCE	302,214
DEPRECIATION	1,081,447
OTHER OPERATING EXPENSE	<u>552,849</u>
TOTAL EXPENSES	<u>15,800,180</u>
LOSS FROM OPERATIONS	<u>(2,383,809)</u>

**NONOPERATING REVENUE (EXPENSES):**

DISTRICT TAX REVENUE	2,700,000
INVESTMENT INCOME	42,000
INTEREST EXPENSE	(494,435)
NONCAPITAL GRANTS AND CONTRIBUTIONS	42,000
OTHER NONOPERATING INCOME	<u>117,959</u>
TOTAL NONOPERATING REVENUE, NET	<u>2,407,524</u>
NET INCOME	<u><u>23,715</u></u>

**San Bernardino Mountains  
Community Hospital District**

Lake Arrowhead, California

**Financial Statements**

Years Ended June 30, 2010 and 2009

# San Bernardino Mountains Community Hospital District

## Financial Statements

Years Ended June 30, 2010 and 2009

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## Table of Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	2
Financial Statements	
Balance Sheets.....	8
Statements of Revenue, Expenses, and Changes in Net Assets.....	10
Statements of Cash Flows.....	12
Notes to Financial Statements.....	14



## Independent Auditor's Report

Board of Directors  
San Bernardino Mountains Community Hospital District  
Lake Arrowhead, California

We have audited the accompanying balance sheets of San Bernardino Mountains Community Hospital District as of June 30, 2010 and 2009, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Bernardino Mountains Community Hospital District as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Wipfli LLP*

Wipfli LLP

December 30, 2010  
Wausau, Wisconsin



# San Bernardino Mountains Community Hospital District

## Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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### Introduction

San Bernardino Mountains Community Hospital District (the "District") offers readers of our financial statements this narrative overview and analysis of the financial activities of the District for the years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the District's financial statements, including the notes thereto.

### Financial Highlights

- The District's net assets increased by \$.4 million during 2010 and decreased by \$1.3 million and \$3.0 million during 2009 and 2008, respectively.
- During 2010, 2009, and 2008, the District's loss from operations was \$2.4 million, \$3.8 million, and \$5.6 million, respectively.
- During 2010, 2009, and 2008, expenses in excess of revenue totaled \$16,000, \$1.6 million, and \$3.3 million, respectively.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. The financial statements are composed of the balance sheets, the statements of revenue, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the District's finances.

### Required Financial Statements

The District's financial statements report information of the District using accounting methods similar to those used by private sector health care organizations. These statements offer short-term and long-term information about its activities. The balance sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

# San Bernardino Mountains Community Hospital District

## Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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### Required Financial Statements (Continued)

All of the revenue and expenses for years 2010 and 2009 are accounted for in the statements of revenue, expenses, and changes in net assets. The statements can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenue and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final required statement is the statements of cash flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

# San Bernardino Mountains Community Hospital District

## Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

### Financial Analysis of the District

The District's net assets – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

#### Condensed Balance Sheets\* June 30, 2010, 2009, and 2008 (In Thousands)

	2010	2009	2008	Change	
				2010-2009	2009-2008
Current assets	\$ 3,830	\$ 3,710	\$ 3,512	\$ 120	\$ 198
Capital assets	7,247	7,915	8,240	(668)	(325)
Other assets	1,889	1,512	3,023	377	(1,511)
<b>Total assets</b>	<b>\$ 12,966</b>	<b>\$ 13,137</b>	<b>\$ 14,775</b>	<b>\$ (171)</b>	<b>\$ (1,638)</b>
Current liabilities	\$ 1,416	\$ 1,853	\$ 2,161	\$ (437)	\$ (308)
Long-term liabilities, net of current maturities	8,055	8,184	8,247	(129)	(63)
<b>Total liabilities</b>	<b>9,471</b>	<b>10,037</b>	<b>10,408</b>	<b>(566)</b>	<b>(371)</b>
Invested in capital assets, net of related debt	\$ (879)	\$ (406)	\$ (302)	\$ (473)	\$ (104)
Unrestricted net assets	4,374	3,506	4,669	868	(1,163)
<b>Total net assets</b>	<b>\$ 3,495</b>	<b>\$ 3,100</b>	<b>\$ 4,367</b>	<b>\$ 395</b>	<b>\$ (1,267)</b>

\*Reclassifications have been made to 2009 and 2008 to conform to 2010 presentations.

# San Bernardino Mountains Community Hospital District

## Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

### Financial Analysis of the District (Continued)

- Current assets increased by approximately \$120,000 in 2010 which is primarily due to the significant improvement in operating results coupled with the large decrease in the number of days revenue in patient accounts receivable. Current assets increased by approximately \$198,000 during 2009 primarily due to increased receivables.
- Other assets consist mostly of assets limited as to use by borrowing agreements or Board-designated funds. Other assets increased by approximately \$377,000 in 2010 due to increased levels of Board-designated funds. The decline of approximately \$1.5 million in 2009 is primarily attributable to the use of Board-designated funds to purchase adjacent land and for operating costs.

#### Condensed Statements of Revenue, Expenses, and Changes in Net Assets\*

Years Ended June 30, 2010, 2009, and 2008

(In Thousands)

	2010	2009	2008	Change	
				2010-2009	2009-2008
Operating revenue	\$ 13,071	\$ 12,362	\$ 10,558	\$ 709	\$ 1,804
Operating expenses	15,475	16,150	16,187	(675)	(37)
Loss from operations	(2,404)	(3,788)	(5,629)	1,384	1,841
Nonoperating revenue	2,388	2,166	2,365	222	(199)
Expenses in excess of revenue	(16)	(1,622)	(3,264)	1,606	1,642
Capital grants and contributions	411	355	308	56	47
Increase (decrease) in net assets	\$ 395	\$ (1,267)	\$ (2,956)	\$ 1,662	\$ 1,689
Patient days:					
Acute care hospital (includes swing-bed patients)	1,551	1,835	2,559	(284)	(724)
Skilled nursing facility	6,845	6,301	6,283	544	18
Totals	8,396	8,136	8,842	260	(706)
Selected outpatient visits:					
Emergency room	6,652	6,443	6,569	209	(126)
Rural health clinics	7,561	7,801	6,762	(240)	1,039

\*Reclassifications have been made to 2009 and 2008 to conform to 2010 presentations.

# San Bernardino Mountains Community Hospital District

## Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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### Financial Analysis of the District (Continued)

Management and the Board are pleased with the financial improvement that has been achieved in 2010 and 2009.

- In the past few years (2009 and prior), the District sustained significant decreases in cash, net assets, and operating profitability. Many of the above issues were a result of the installation of a new hospital information system during the year ended June 30, 2007. At the hospital level, the installation was not properly planned or executed, and hospital personnel were not fully trained, engaged, or otherwise prepared for the process. Other issues contributing to the continued negative financial performance were the result of inattention by management to certain contractual obligations over a period of several years.
- Midway through the year ended June 30, 2009, certain new senior management was hired, and the following actions were implemented:
  - Patient Financial Services (PFS) Department was realigned as follows:
    - New experienced manager was placed in charge of the department.
    - Extensive training was given to personnel.
    - Reorganization of workflow was completed.
    - Denials management process was developed and implemented.
    - Charge Description Master (CDM) was reviewed, updated, and corrected.
    - All old unpaid, denied accounts were evaluated for rebilling.
    - Major Preferred Provider Contracts were renegotiated and payment rates were updated.
  - Management reviewed existing hospital service contracts and either eliminated those services which did not provide community benefit equal to their cost or reduced such shortfall as follows:
    - OB/GYN physician practice support contract was not renewed.
    - Employee health and dental insurance was modified for significant savings.
    - MRI, an under-utilized contracted radiology service, was eliminated.
    - The District ceased billing for outpatient laboratory procedures performed by Quest.
    - Patient Eligibility, which was formerly contracted, was brought in-house.

# San Bernardino Mountains Community Hospital District

## Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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### Financial Analysis of the District (Continued)

- During 2010 management implemented additional actions which included but were not limited to the following:
  - Two additional beds were added to the licensed capacity of the skilled nursing facility thereby increasing net revenue derived from that service.
  - All revenue cycle departments were realigned to report to the Revenue Cycle Manager (previously the PFS Manager).
  - The District's CDM continues to be reviewed.
- As of the date of the auditor's report on the 2010 financial statements, District management believes many of the significant critical operating problems have been addressed and that the hospital information system is being used properly.

### Capital Assets and Debt Administration

During 2010 and 2009, the District did not have any major capital projects in progress. One significant capital asset transaction was the purchase of adjacent land for \$501,385 during 2009. More information about the District's capital assets is presented in Note 9 to the financial statements.

The District has two outstanding Certificates of Participation, classified as long-term debt. The District reduced its Certificates of Participation by \$140,000 and \$135,000 during 2010 and 2009, respectively. The District also reduced its capital lease obligation by approximately \$73,000 and \$105,000 during 2010 and 2009, respectively

At year-end 2010, there are no outstanding capital lease obligations.

### Contacting the District's Finance Department

The District's financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report, please contact the Chief Financial Officer at 909.336.3651.

# San Bernardino Mountains Community Hospital District

## Balance Sheets

June 30, 2010 and 2009

<i>Assets</i>	2010	2009
Current assets:		
Cash and cash equivalents	\$ 702,061	\$ 87,617
Current portion of assets limited as to use	145,000	140,000
Receivables:		-
Patient - Net	1,625,485	2,544,598
Foundation - Net	49,980	131,123
Other	250,791	141,972
Inventory	380,938	395,072
Prepaid expenses and deposits	411,471	128,523
Estimated third-party payor settlements	264,165	140,706
Total current assets	3,829,891	3,709,611
Noncurrent assets limited as to use	1,529,531	1,199,513
Capital assets:		
Nondepreciable capital assets	1,275,540	1,140,274
Depreciable capital assets - Net	5,971,516	6,774,980
Capital assets - Net	7,247,056	7,915,254
Other noncurrent assets:		
Advances to physicians	285,913	236,538
Deferred debt issuance costs net of accumulated amortization of \$9,459 and \$6,690, respectively	73,594	76,363
Total other noncurrent assets	359,507	312,901
<b>TOTAL ASSETS</b>	<b>\$ 12,965,985</b>	<b>\$ 13,137,279</b>

<i>Liabilities and Net Assets</i>	2010	2009
Current liabilities:		
Current portion of long-term liabilities:		
Certificates of Participation	\$ 145,000	\$ 140,000
Capital leases	-	73,038
Accounts payable and accrued expenses	357,876	702,144
Patient credit balances	188,993	205,697
Accrued interest	203,814	206,627
Accrued payroll and related liabilities	498,284	503,477
Deferred revenue	22,510	21,855
Total current liabilities	1,416,477	1,852,838
Long-term liabilities - Certificates of Participation	8,054,858	8,184,241
Total liabilities	9,471,335	10,037,079
Net assets:		
Invested in capital assets, net of related debt	(879,208)	(405,662)
Unrestricted	4,373,858	3,505,862
Total net assets	3,494,650	3,100,200
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 12,965,985</b>	<b>\$ 13,137,279</b>



# San Bernardino Mountains Community Hospital District

## Statements of Revenue, Expenses, and Changes in Net Assets

Years Ended June 30, 2010 and 2009

	2010	2009
Revenue:		
Net patient service revenue	\$ 12,718,182	\$ 12,105,395
Other operating income	352,815	256,355
Total revenue	13,070,997	12,361,750
Expenses:		
Salaries and wages	6,617,594	6,565,130
Employee benefits	1,532,698	1,737,725
Professional fees	1,853,426	1,765,658
Supplies	1,897,913	1,909,823
Purchased services	519,419	910,718
Rent	257,985	351,506
Repairs and maintenance	524,533	411,583
Utilities	327,310	363,333
Insurance	363,230	374,828
Depreciation and amortization	1,141,816	1,160,125
Other operating expense	438,656	598,957
Total expenses	15,474,580	16,149,386
Loss from operations	(2,403,583)	(3,787,636)
Nonoperating revenue (expenses):		
District tax revenue	2,686,196	2,704,314
Investment gain (loss)	70,345	(306,890)
Interest expense	(510,946)	(525,759)
Noncapital grants and contributions	45,113	195,012
Loss on disposal of capital assets	(17,430)	-
Other nonoperating income	114,475	99,272
Total nonoperating revenue - Net	2,387,753	2,165,949
Expenses in excess of revenue	(15,830)	(1,621,687)

# San Bernardino Mountains Community Hospital District

## Statements of Revenue, Expenses, and Changes in Net Assets (Continued)

Years Ended June 30, 2010 and 2009

	2010	2009
Expenses in excess of revenue (brought forward)	\$ (15,830)	\$ (1,621,687)
Capital grants and contributions	410,280	354,796
Increase (decrease) in net assets	394,450	(1,266,891)
Net assets at beginning	3,100,200	4,367,091
Net assets at end	\$ 3,494,650	\$ 3,100,200

# San Bernardino Mountains Community Hospital District

## Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 13,436,785	\$ 11,465,226
Payments to suppliers and contractors	(6,813,413)	(6,912,431)
Payments to employees and benefit programs	(8,130,985)	(8,325,884)
Other receipts from operations, not from patient services	353,470	256,992
Net cash used in operating activities	(1,154,143)	(3,516,097)
Cash flows from noncapital financing activities:		
District tax revenue	2,686,196	2,704,314
Other nonoperating revenue	159,588	294,284
Net cash provided by noncapital financing activities	2,845,784	2,998,598
Cash flows from capital and related financing activities:		
Capital grants and contributions	410,280	354,796
Purchase of capital assets	(513,324)	(866,987)
Proceeds from disposal of capital assets	1,700	-
Principal payments on long-term debt	(140,000)	(135,000)
Interest payments on long-term debt	(498,142)	(512,823)
Payments on capital leases	(73,038)	(104,917)
Net cash used in capital and related financing activities	(812,524)	(1,264,931)
Cash flows from investing activities:		
Proceeds from sale of assets limited as to use	1,406,014	3,322,652
Payment for purchase of assets limited as to use	(1,709,883)	(1,854,559)
Investment income	39,196	99,048
Net cash provided by (used in) investing activities	(264,673)	1,567,141
Net change in cash and cash equivalents	614,444	(215,289)
Cash and cash equivalents at beginning	87,617	302,906
Cash and cash equivalents at end	\$ 702,061	\$ 87,617

# San Bernardino Mountains Community Hospital District

## Statements of Cash Flows (Continued)

Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (2,403,583)	\$ (3,787,636)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	1,141,816	1,160,125
Provision for uncollectible accounts	1,747,756	1,852,285
Changes in operating assets and liabilities:		
Receivables:		
Patient	(828,643)	(2,262,902)
Foundation	81,143	(81,123)
Other	(158,194)	(458,403)
Inventory	14,134	(46,638)
Prepaid expenses and deposits	(282,948)	200,174
Estimated third-party payor settlements	(123,459)	309,974
Accounts payable and accrued expenses	(320,923)	(120,930)
Patient credit balances	(16,704)	(258,631)
Accrued payroll and related liabilities	(5,193)	(23,029)
Deferred revenue	655	637
Total adjustments	1,249,440	271,539
Net cash used in operating activities	\$ (1,154,143)	\$ (3,516,097)
Noncash financing activities:		
Capital assets included in accounts payable at year-end	\$ 23,345	\$ 66,807

See accompanying notes to financial statements.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 1      Summary of Significant Accounting Policies

#### The Entity

San Bernardino Mountains Community Hospital District (the "District") is a special health care district which is an agency of the State of California (as set forth in the California Government Code) and is operated and governed by an elected Board of Directors. The District was organized for the purpose of operating Mountains Community Hospital which includes a 17-bed acute care facility that provides inpatient, outpatient, and emergency care services; 2 rural health clinics; and a 20-bed skilled nursing facility in Lake Arrowhead, California, and the surrounding area.

The accompanying financial statements present the activities of the District. Accounting principles generally accepted in the United States require that these financial statements include the primary government and its component units. Component units are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. All significant activities and organizations with which the District exercises oversight responsibility have been considered for inclusion in the financial statements. The District has no component units and is not included in any other governmental reporting entity.

Mountains Community Hospital Foundation, Inc. (the "Foundation") is a legally separate, 501(c)(3) tax-exempt, public benefit corporation. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources, or income thereon that the Foundation holds and invests, are restricted to the activities of the District by its bylaws. The Foundation's Board of Directors may also restrict the use of such funds for capital asset replacement, expansion, or other specific purposes. Mountains Community Hospital Auxiliary, Inc. (the "Auxiliary") is also a legally separate, 501(c)(3) tax-exempt, public benefit corporation. The Foundation and the Auxiliary are not financially significant to the District and therefore their financial statements are not included in this report.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### **Financial Statement Presentation**

The District's financial statements are presented using the flow of economic resources measurement focus, which uses the accrual basis of accounting. The District applies all applicable private sector pronouncements including those issued after November 30, 1989, which do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for its proprietary operations.

#### **Use of Estimates in Preparation of Financial Statements**

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

The District considers critical accounting estimates to be those that require more significant judgments and include the valuation of accounts receivable, including contractual adjustments, the allowance for uncollectible accounts, and estimated third-party payor settlements.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### **Cash and Cash Equivalents**

The District considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use.

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government or its agencies; bankers' acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

All investments are stated at fair value. Investment gain (loss) includes changes in fair value of investments, interest, and realized gains and losses.

#### **Patient Receivables and Credit Policy**

Patient receivables are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patient's responsibility. Payments on patient receivables are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### **Patient Receivables and Credit Policy (Continued)**

The carrying amounts of patient receivables are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient receivables. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to the allowance for uncollectible accounts based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible accounts and a credit to patient receivables.

Patient receivables are recorded in the accompanying balance sheets net of contractual adjustments and an allowance for uncollectible accounts.

#### **Tax Receivables**

Tax receivables are amounts due from San Bernardino County (the "County"). Ad valorem taxes and per parcel assessments are levied by the County on the District's behalf. The District receives distributions of proceeds from these taxes based on an apportionment schedule and accrues such revenue ratably over the year.

#### **Inventory**

Inventory is valued at the lower of cost, determined using the first-in, first-out method, or market.

#### **Assets Limited as to Use**

Assets limited as to use include Board designated assets to be used for future capital improvements over which the Board retains control and may, at its discretion, use for other purposes, investments held by the Certificates of Participation trustee, and resident trust funds.



# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### Capital Assets and Depreciation

Capital assets are recorded at cost if purchased or fair value at date received if contributed. The District maintains a threshold level of a unit or group cost of \$5,000 or more for capitalizing capital assets. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation expense in the accompanying financial statements. Estimated useful lives range from 5 to 25 years for land improvements, buildings and improvements, leasehold improvements, and fixed equipment, and from 3 to 20 years for equipment.

#### Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are reported in the statement of revenue, expenses, and changes in net assets. There were no impairment losses recorded in the years ended June 30, 2010 and 2009.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### Deferred Debt Issuance Costs

Deferred debt issuance costs include unamortized Certificates of Participation ("Certificates") issuance costs which are being amortized over the life of the Certificates using the straight-line method.

Amortization of debt issuance costs is reflected as a component of depreciation and amortization expense.

#### Original Issue Discounts

Original issue discounts on long-term debt are deferred and amortized over the life of the related Certificates using the straight-line method.

Amortization of the discounts is reflected as a component of interest expense.

#### Compensated Absences

District employees earn vacation, sick, and holiday leave (PTO) in varying amounts, based on length of service. Accumulated PTO benefits are paid to an employee if the employee leaves either upon termination or retirement. Liabilities for PTO and salary related payments, including social security taxes, are recorded when incurred. Accrued PTO benefits totaled \$222,547 and \$207,572 as of June 30, 2010 and 2009, respectively.

The District's policy also allows employees to earn prolonged illness benefit up to a maximum of 46 days. Such benefits do not vest; therefore no liability has been accrued.

#### Deferred Revenue

Funds received but not earned as of the date of the balance sheet have been classified as deferred revenue. Revenue will be recognized in future periods as the revenue is earned.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### Net Assets

Net assets of the District are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets plus unamortized issue costs. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net assets* are remaining net assets that do not meet the definitions above. For 2010 and 2009, the District had no restricted expendable net assets.

#### Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

#### Charity Care

The District provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The District maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### **Operating Revenue and Expenses**

The District's statements of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

#### **Property Tax Revenue**

The District has the authority to impose taxes on property within the boundaries of the health care district. Taxes are received from the County of San Bernardino, which bills and collects the taxes for the District. Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments due November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

#### **Grants and Contributions**

The District receives grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

#### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense totaled approximately \$100,000 and \$95,000 in 2010 and 2009, respectively.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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

#### **Tax Status**

The District is a local agency of the State of California within the meaning of Section 56054 of the California Government Code. Accordingly, the District is exempt from federal income and state income, property, and franchise taxes.

#### **Unemployment Compensation**

The 1971 Session of the California Legislature extended unemployment insurance protection to public employers. Each entity has the right to elect to pay the regular quarterly employer tax on covered wages or to reimburse the Unemployment Compensation Fund for actual claims paid to their former employees for unemployment.

The District has elected to pay quarterly employer tax on covered wages for the years ended June 30, 2010 and 2009.

#### **Subsequent Events**

Accounting Standards Codification (ASC) Topic 855, Subsequent Events, modifies the definition of subsequent events and requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. Subsequent events have been evaluated through December 30, 2010, which is the date the financial statements were available to be issued. During this period, there were no subsequent events requiring recognition in the financial statements; however, there was an event included for additional disclosure. See Note 18 for additional information on the subsequent event.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 2      Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for reimbursement to the District at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

#### Hospital

*Medicare* - The Medicare program has designated the District as a critical access hospital (CAH) for Medicare reimbursement purposes. Under this designation, District inpatient, outpatient, and swing-bed services rendered to Medicare program beneficiaries are paid based upon a cost-reimbursement methodology with the exception of certain lab services which are reimbursed based on a fee schedule.

*Medi-Cal* - Under CAH designation, District inpatient and swing-bed services rendered to Medi-Cal program beneficiaries are paid based upon a cost-reimbursement methodology. The reimbursement for outpatient services is based upon a fee schedule.

#### Nursing Facility

*Medicare* - Medicare pays the skilled nursing facility for Part A services based on a predetermined rate per resident day, which varies depending on a resident's level of care and the types of services provided.

*Medi-Cal* - Long-term care services are reimbursed at a daily rate, which is adjusted annually. The District applies for and receives supplemental reimbursement for its distinct part nursing facility. The supplemental reimbursement is based upon a cost reimbursement methodology.

#### Physician and Professional Services in Rural Health Clinics

Certain physician and professional services rendered to Medicare and Medi-Cal beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 2      Reimbursement Arrangements With Third-Party Payors (Continued)

#### Others

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes discounts from established charges and prospectively determined daily rates.

Approximately 20% and 29% of gross patient service revenue is from participation in the traditional Medicare and Medi-Cal programs, respectively, for the year ended June 30, 2010.

Approximately 19% and 31% of gross patient service revenue is from participation in the traditional Medicare and Medi-Cal programs, respectively, for the year ended June 30, 2009.

#### Accounting for Contractual Arrangements

The District is reimbursed for certain cost reimbursable items at an interim rate, with final settlements determined after an audit of the District's related annual cost reports by the respective Medicare and Medi-Cal fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The cost reports for the District have been audited by Medicare through June 30, 2009, and by Medi-Cal through June 30, 2008.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 2      Reimbursement Arrangements With Third-Party Payors (Continued)

#### Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medi-Cal programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violation of these laws and regulations could result in the imposition of fines and penalties, as well as repayments of previously billed and collected revenue from patient services. Management believes the District is in substantial compliance with current laws and regulations.

The Centers for Medicare and Medicaid Services (CMS) implemented a new demonstration project using recovery audit contractors (RACs) as part of CMS's further efforts to assure accurate payments. The project uses RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District's policy is to adjust to or from revenue the amounts assessed under the RAC audits at the time a change in reimbursement is agreed upon between the District and CMS. RAC reviews with the District are anticipated; however, the outcome of such potential reviews are unknown and cannot be reasonably estimated.



# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

### Note 3 Cash, Cash Equivalents, and Investments

#### Deposits

*Custodial Credit Risk* - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of June 30, 2010 and 2009, none of the District's bank balance was exposed to custodial credit risk.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

#### Investments

Investments included in assets limited as of use, stated at fair value, consisted of the following at June 30:

		Remaining Maturity (In Years)			
	Fair Value	0-1	1-5	5-10	More Than 10
2010					
Mutual funds	\$ 699,477	\$ 699,477	\$ -	\$ -	\$ -
2009					
U.S. government securities	\$ 247,365	\$ 247,365	\$ -	\$ -	\$ -
Mutual funds	612,419	612,419	-	-	-
Totals	\$ 859,784	\$ 859,784	\$ -	\$ -	\$ -

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 3      Cash, Cash Equivalents, and Investments (Continued)

#### Investments (Continued)

*Credit Risk* - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization. The District has no investment policy that would limit its investment choices by credit rating.

*Concentration of Credit Risk* - The California Government Code limits the purchase of certain investments to defined percentages of the investment portfolio. At June 30, 2009, the District had investments in Fannie Mae that represent 5% or more of the total District investments.

*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to the transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's investment policy does not limit the exposure to custodial credit risk for investments. All investments are held by the District's agent in the District's name and therefore are not exposed to custodial risk.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 4      Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. Investments designated as assets limited as to use are stated at fair value.

Assets limited as to use consisted of the following at June 30:

	2010	2009
Under indenture agreements - Held by Certificates trustee:		
Cash and cash equivalents	\$ 253,897	\$ 15,995
U.S. Government securities	-	247,365
Total under indenture agreements - Held by Certificates trustee	253,897	263,360
Board-designated for capital improvements:		
Cash and cash equivalents	719,037	454,609
Mutual funds	699,477	612,419
Total Board-designated for capital improvements	1,418,514	1,067,028
Resident trust funds - Cash and cash equivalents	2,120	9,125
Total assets limited as to use	1,674,531	1,339,513
Less - Current portion	145,000	140,000
Noncurrent assets limited as to use	\$ 1,529,531	\$ 1,199,513

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

### Note 5 Patient Receivables - Net

Patient receivables - net consisted of the following at June 30:

	2010	2009
Patient receivables	\$ 4,637,485	\$ 8,148,847
Less:		
Contractual adjustments	1,936,000	4,086,489
Allowance for uncollectible accounts	1,076,000	1,517,760
Patient receivables - Net	\$ 1,625,485	\$ 2,544,598

### Note 6 Other Receivables

Other receivables are comprised of the following at June 30:

	2010	2009
Advances to physicians	\$ 393,241	\$ 272,656
District taxes	69,089	78,572
Other	74,374	27,282
Subtotals	536,704	378,510
Less - Noncurrent advances to physicians	285,913	236,538
Current other receivables	\$ 250,791	\$ 141,972

Advances to physicians are composed of physician income guarantees. The District has entered into agreements with certain physicians whereby the District guarantees their income for a specified period of time. These agreements are structured so that after a physician maintains a practice in the area for a specified period of time, the income guarantee advances are forgiven.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 7 Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended June 30:

	2010	2009
Gross patient service revenue:		
Inpatient services	\$ 7,996,165	\$ 8,971,693
Outpatient services	18,516,042	17,910,518
Total.	26,512,207	26,882,211
Less:		
Contractual adjustments	12,046,269	12,924,531
Provision for uncollectible accounts	1,747,756	1,852,285
Net patient service revenue	\$ 12,718,182	\$ 12,105,395

### Note 8 Charity Care

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

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy.

The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated approximately \$214,000 and \$157,000 for the years ended June 30, 2010 and 2009, respectively.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

### Note 9 Capital Assets

Capital assets consisted of the following at June 30:

	Balance July 1, 2009	Additions	Transfers and Adjustments	Deletions	Balance June 30, 2010
Nondepreciable capital assets:					
Land	\$ 1,061,617	\$ -	\$ -	\$ -	1,061,617
Construction in progress	78,657	354,625	(219,359)	-	213,923
Total nondepreciable capital assets	1,140,274	354,625	(219,359)	-	1,275,540
Depreciable capital assets:					
Land improvements	426,744	-	-	-	426,744
Buildings and improvements	4,847,168	11,550	116,073	-	4,974,791
Leasehold improvements	271,600	-	-	-	271,600
Equipment (includes fixed equipment)	8,885,626	123,805	103,286	(273,268)	8,839,449
Total depreciable capital assets	14,431,138	135,355	219,359	(273,268)	14,512,584
Less - Accumulated depreciation	7,656,158	1,139,048	-	(254,138)	8,541,068
Net capital assets being depreciated	6,774,980	(1,003,693)	219,359	(19,130)	5,971,516
Totals	\$ 7,915,254	\$ (649,068)	\$ -	\$ (19,130)	\$ 7,247,056

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

### Note 9 Capital Assets (Continued)

	Balance July 1, 2008	Additions	Transfers and Adjustments	Deletions	Balance June 30, 2009
Nondepreciable capital assets:					
Land	\$ 536,500	\$ 501,385	\$ 23,732	\$ -	\$ 1,061,617
Construction in progress	48,300	130,574	(100,217)	-	78,657
Total nondepreciable capital assets	584,800	631,959	(76,485)	-	1,140,274
Depreciable capital assets:					
Land improvements	426,744	-	-	-	426,744
Buildings and improvements	4,833,243	13,925	-	-	4,847,168
Leasehold improvements	278,463	-	(6,863)	-	271,600
Equipment (includes fixed equipment)	8,626,563	165,662	103,883	(10,482)	8,885,626
Total depreciable capital assets	14,165,013	179,587	97,020	(10,482)	14,431,138
Less - Accumulated depreciation	6,509,455	1,157,357	(172)	(10,482)	7,656,158
Net capital assets being depreciated	7,655,558	(977,770)	97,192	-	6,774,980
Totals	\$ 8,240,358	\$ (345,811)	\$ 20,707	\$ -	\$ 7,915,254

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

### Note 10 Long-Term Debt

Long-term debt consisted of the following at June 30:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Certificates of Participation:					
2007 Series A	\$ 6,250,000	\$ -	\$ (110,000)	\$ 6,140,000	\$ 115,000
2007 Series B	2,505,000	-	(30,000)	2,475,000	30,000
Subtotal	8,755,000	-	(140,000)	8,615,000	145,000
Less - Unamortized original issue discount	430,759	-	(15,617)	415,142	-
Totals	\$ 8,324,241	\$ -	\$ (124,383)	\$ 8,199,858	\$ 145,000

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
Certificates of Participation:					
2007 Series A	\$ 6,355,000	\$ -	\$ (105,000)	\$ 6,250,000	\$ 110,000
2007 Series B	2,535,000	-	(30,000)	2,505,000	30,000
Subtotal	8,890,000	-	(135,000)	8,755,000	140,000
Less - Unamortized original issue discount	446,375	-	(15,616)	430,759	-
Totals	\$ 8,443,625	\$ -	\$ (119,384)	\$ 8,324,241	\$ 140,000



# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

### Note 10 Long-Term Debt (Continued)

On February 1, 2007, the District issued \$6,455,000 of Certificates of Participation, Series A (2007 Capital Improvement Financing and Refinancing Project) and \$2,560,000 Certificates of Participation, Series B - Taxable (2007 Capital Improvement Financing Project) (the "Certificates"). The Certificates are paid in varying amounts annually on February 1 through 2037 with interest payable semi-annually on February 1 and August 1, at rates varying from 4.3% to 7.65%. The indenture agreements require the establishment of certain funds, which are unavailable for general purposes, to be held by the trustee. Required funds have been established and are included in assets limited as to use in the financial statements.

Aggregate cash flow requirements for the retirement of long-term principal and interest on debt as of June 30, 2010, follows:

	Principal	Interest	Totals
2011	\$ 145,000	\$ 489,154	\$ 634,154
2012	155,000	482,079	637,079
2013	160,000	474,254	634,254
2014	170,000	465,519	635,519
2015	175,000	456,179	631,179
2016-2020	1,055,000	2,122,333	3,177,333
2021-2025	1,380,000	1,792,001	3,172,001
2026-2030	1,810,000	1,355,775	3,165,775
2031-2035	2,400,000	772,000	3,172,000
Thereafter	1,165,000	102,874	1,267,874
<b>Totals</b>	<b>\$ 8,615,000</b>	<b>\$ 8,512,168</b>	<b>\$ 17,127,168</b>

### Note 11 Leases

The District had two capital leases for equipment purchases with interest charged at various rates from 6.97% to 12.08% which expired in 2010.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 11      Leases (Continued)

The District leases office space in a medical office building under an operating lease agreement that expires in 2012. The District also leased an MRI unit during 2009; this lease was terminated in May 2009. Total building and equipment rent expense for the years ended June 30, 2010 and 2009 was \$257,985 and \$351,506, respectively.

Future required payments by year and in the aggregate under noncancellable operating leases with an initial or remaining term of in excess of one year, as of June 30, 2010, are as follows:

	Operating Leases
2011	\$ 177,047
2012	184,129
2013	93,870
Total minimum lease payments	<u>\$ 455,046</u>

### Note 12      Retirement Plan

The District has a defined contribution pension plan covering substantially all of its employees. The District contributes 4% of eligible wages to the plan. Employees are eligible to enter the plan after one year of employment and are 100% vested when they enter. Pension expense for the years ended June 30, 2010 and 2009, was approximately \$174,000 and \$188,000, respectively.

In 2010, the District became aware that there were certain issues relating to its defined contribution retirement plan. Subsequent to year-end, this plan was frozen and replaced by new 457(b) and 401(a) plans. Management continues to work with its legal counsel to resolve the issues relating to the frozen plan. While the projected expense to resolve such issues is not known at this time, management does not expect it to be material and, accordingly, the District has not recorded a liability.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 13      Risk Management

The District is exposed to various risks of loss related to medical malpractice; torts; theft of, damage to, and destruction of assets; errors and omissions; injuries of employees; and natural disasters.

The District's comprehensive general liability insurance covers losses of up to \$5,000,000 per claim with \$5,000,000 annual aggregate for claims incurred during a policy year regardless of when the claim was filed (occurrence-based coverage). The District's professional liability insurance covers losses up to \$5,000,000 per claim with \$5,000,000 annual aggregate for claims reported during a policy year (claims-made coverage). Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the District. Although there exists the possibility of claims arising from services provided to patients through June 30, 2010, which have not yet been asserted, the District is unable to determine the ultimate cost, if any, of such possible claims and, accordingly, no provision has been made for them. Settled claims have not exceeded commercial coverage in any of the three preceding years.

The District is a participant in the Association of California Healthcare Districts' ALPHA Fund which administers a self-insured workers' compensation plan for participating member hospitals and their employees. The District pays a premium to the ALPHA Fund which is adjusted annually. If participation in the ALPHA Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the ALPHA Fund.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### **Note 14      Related-Party Transactions**

The Foundation and Auxiliary were established to support the District.

For the years ended June 30, 2010 and 2009, grants and contributions from the Foundation totaled \$374,997 and \$461,033, respectively.

At June 30, 2010, the District has recorded a net receivable of \$49,980 due from the Foundation which includes \$50,000 due from the Foundation and \$20 due to the Foundation.

At June 30, 2009, the District has recorded a net receivable of \$131,123 due from the Foundation which includes \$188,819 due from the Foundation and \$57,696 due to the Foundation.

For the years ended June 30, 2010 and 2009, contributions from the Auxiliary totaled \$30,000 in both years.

### **Note 15      Concentration of Credit Risk**

Financial instruments that potentially subject the District to credit risk consist principally of patient receivables.

Patient receivables consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medi-Cal) for health care provided to the patients. The majority of the District's patients are from Lake Arrowhead, California, and the surrounding area.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 15      Concentration of Credit Risk (Continued)

The mix of receivables from patients and third-party payors was as follows at June 30:

	2010	2009
Medicare	12 %	11 %
Medi-Cal	25 %	29 %
Other third-party payors	36 %	40 %
Patients	27 %	20 %
Totals	100 %	100 %

### Note 16      Functional Expenses

The District provides general health care services to residents within its geographic area. Expenses related to providing these services consisted of the following for the years ended June 30:

	2010	2009
Health care services	\$ 13,153,393	\$ 13,726,978
Management and administration	2,321,187	2,422,408
Totals	\$ 15,474,580	\$ 16,149,386

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### Note 17      Commitments and Contingencies

#### Construction in Progress

As of June 30, 2010, the District had recorded approximately \$214,000, as construction-in-progress representing costs capitalized for landscaping, remodeling, seismic, and information system related projects. Estimated costs to complete obligated projects as of June 30, 2010 are approximately \$257,000. Costs are to be financed through contributions and operations.

#### Litigation

The District may from time to time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2010, will be resolved without material adverse effect on the District's future financial position, results from operations, or cash flows.

Accounting guidance clarifies when an organization is required to recognize a liability for a conditional asset retirement obligation. Management has considered this guidance specifically as it relates to its legal obligations to perform asset retirement activities, to include asbestos removal on its existing properties. Management of the District believes there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the District may settle the obligation is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2010 and 2009.

# San Bernardino Mountains Community Hospital District

## Notes to Financial Statements

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### **Note 18      Subsequent Event**

Subsequent to year-end, the District engaged architects and structural engineers to assist it in complying with various seismic regulations affecting hospitals in California. To date, the District has committed to expend fees of approximately \$100,000 for the planning phase of the project. Completion of the plans and approval by the State of California Office of Statewide Planning and Development will require several months. Actual construction is estimated to commence in the spring of 2011, and should require several months for completion and approvals. Patient care will not be adversely affected by this project.

### **Note 19      Reclassifications**

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 classifications.