

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2022



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**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
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INDEPENDENT AUDITORS' REPORT

Board of Supervisors and Audit Committee
Arrowhead Regional Medical Center
San Bernardino County, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Arrowhead Regional Medical Center, which comprise the statement of net position as of and for the year ended June 30, 2022, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Arrowhead Regional Medical Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arrowhead Regional Medical Center, as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Arrowhead Regional Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective July 1, 2021, the Arrowhead Regional Medical Center adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than 12 months. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability and schedule of contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2023, on our consideration of Arrowhead Regional Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Arrowhead Regional Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arrowhead Regional Medical Center's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
March 16, 2023

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
STATEMENT OF NET POSITION
JUNE 30, 2022
(IN THOUSANDS)**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 389,244
Patient Accounts Receivable, Net	35,242
Receivable from Other Governments	116,090
Due from County	8,017
Other Receivables	2,271
Supplies Inventories	4,557
Prepaid Expenses and Other Assets	7,100
Total Current Assets	<u>562,521</u>

NONCURRENT ASSETS

Capital Assets:	
Land and Improvements	25,627
Building and Improvements	553,685
Equipment	222,294
Software	45
Lease Assets - Building and Improvements	14,447
Construction-in-Progress	44,587
Total Capital Assets	<u>860,685</u>
Less: Accumulated Depreciation and Amortization	<u>(507,911)</u>
Total Noncurrent Assets	<u>352,774</u>
 Total Assets	 915,295

DEFERRED OUTFLOWS OF RESOURCES

Deferred Amount on Refunding	11,446
Deferred Outflows Related to Pensions	97,329
Total Deferred Outflows of Resources	<u>108,775</u>

See accompanying Notes to Financial Statements.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2022
(IN THOUSANDS)**

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 56,849
Accrued Salaries and Benefits	25,825
Other Accrued Liabilities	2,208
Finance Purchase Obligations	613
Lease Liability	2,272
Certificates of Participation	27,175
Interest Payable	2,144
Arbitrage Payable	1,160
Due to County	766
CMS Advance Payments	29,428
Settlements Due to Third-Party Payors	83,707
Total Current Liabilities	<u>232,147</u>

NONCURRENT LIABILITIES

Long-Term Compensated Absences	20,408
Long-Term Settlements Due to Third-Party Payors	15,643
Net Pension Liability	85,163
Finance Purchase Obligations, Less Current Installments	753
Lease Liability, Less Current Installments	9,892
Certificates of Participation, Less Current Installments	184,244
Total Noncurrent Liabilities	<u>316,103</u>

Total Liabilities	548,250
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	132,705
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NET POSITION

Net Investment in Capital Assets	138,821
Unrestricted	<u>204,294</u>
Total Net Position	<u>\$ 343,115</u>

See accompanying Notes to Financial Statements.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2022
(IN THOUSANDS)**

OPERATING REVENUES	
Net Patient Service	\$ 456,817
Supplemental Revenue	237,934
Other	46,282
Total Operating Revenues	<u>741,033</u>
OPERATING EXPENSES	
Salaries and Benefits	336,858
Supplies	96,977
Professional Services	151,183
Purchased Services	81,572
Insurance	9,112
Utilities	9,925
Depreciation and Amortization	23,669
Rent	8,886
Other	10,507
Total Operating Expenses	<u>728,689</u>
OPERATING INCOME	12,344
NONOPERATING REVENUES (EXPENSES)	
State Debt Service Funding	12,643
Interest Expense on Debt	(7,804)
Federal, State, and Local Coronavirus Grants	21,299
Direct Grants - Designated Public Hospital	6,423
State Realignment Funding	35,000
Other Nonoperating Revenues (Expenses)	(950)
Total Nonoperating Revenues, Net	<u>66,611</u>
INCOME BEFORE TRANSFERS	78,955
TRANSFERS FROM THE COUNTY	<u>13,174</u>
CHANGE IN NET POSITION	92,129
Net Position - Beginning of Year	<u>250,986</u>
NET POSITION - END OF YEAR	<u><u>\$ 343,115</u></u>

See accompanying Notes to Financial Statements.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022
(IN THOUSANDS)**

CASH FLOWS USED BY OPERATING ACTIVITIES

Receipts from Patients and Third-Party Payors	\$ 693,826
Payments to Suppliers	(337,655)
Payments to Employees	(378,781)
Net Cash Used by Operating Activities	<u>(22,610)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal, State, and Local Coronavirus Grants Received	21,299
Transfers from the County	13,174
Other Nonoperating Expense	(950)
Direct Grants - Designated Public Hospital	6,423
State Realignment Funding	35,000
Net Cash Provided by Noncapital Financing Activities	<u>74,946</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(32,282)
State Debt Service Funding	12,643
Principal Payments on Finance Purchase Obligations	(560)
Payments on Lease Liability	(2,283)
Principal Payments on Certificates of Participation	(26,060)
Interest Paid on Debt	(9,651)
Net Cash Used by Capital and Related Financing Activities	<u>(58,193)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(5,857)

Cash and Cash Equivalents - Beginning of Year

395,101

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 389,244

See accompanying Notes to Financial Statements.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2022
(IN THOUSANDS)**

RECONCILIATION OF OPERATING INCOME TO NET

CASH USED BY OPERATING ACTIVITIES

Operating Income	\$	12,344
Adjustments to Reconcile Operating Income to		
Net Cash Used by Operating Activities:		
Depreciation and Amortization		23,669
Amortization of Lease Assets		2,444
Decrease (Increase) in:		
Patient Accounts Receivable		(1,029)
Receivables from Other Governments		(52,195)
Due from County		5,485
Other Receivables		(447)
Supplies Inventories		(594)
Prepaid Expenses and Other Assets		749
Deferred Outflows Related to Pensions		98,592
Increase (Decrease) in:		
Accounts Payable		29,859
Accrued Salaries and Benefits		(6,214)
Other Accrued Liabilities		(657)
Due to Third-Party Payors		979
Arbitrage Payable		(84)
Due to County		(1,210)
Net Pension Liability		(274,409)
Deferred Inflows Related to Pensions		126,740
Long-Term Compensated Absences		13,368
Net Cash Used by Operating Activities	<u>\$</u>	<u>(22,610)</u>

See accompanying Notes to Financial Statements.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

San Bernardino County (County) Arrowhead Regional Medical Center (Medical Center) is classified as a level II trauma center with eight trauma bays and four additional "swing" trauma rooms that can be used during an emergency. In addition, the Medical Center provides 456 patient beds and has 24 private treatment rooms for diagnosis and treatment of urgent care patients. During fiscal year 2000, the Medical Center assumed the inpatient operations, consisting of 90 beds, from the previously separate Department of Behavioral Health.

The Medical Center is owned by the County, which is a legal subdivision of the state of California charged with governmental powers, and is reflected in the County's annual comprehensive financial report as an enterprise fund. The County's powers are exercised through the Board of Supervisors, which, as the governing body of the County, is responsible for the legislative control of the County and the Medical Center.

These financial statements present only the Medical Center and do not purport to, and do not, present fairly the financial position of the County and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

The basic financial statements of the Medical Center are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Accordingly, all assets, deferred outflows, liabilities (whether current or noncurrent), and deferred inflows are included on the statements of net position. The statements of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

The basic financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows.

Operating revenues include those generated from direct patient care and related support services. Operating expenses include the cost of providing patient care, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at an amount less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. However, the Medical Center monitors the level of charity care provided. See Note 7.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue

The Medical Center recognizes net patient service revenue, less contractual allowances associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered including Medicare and Medi-Cal. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Net patient service revenue included estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

Patient Receivables

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

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

For the fiscal year ended June 30, 2022, the Medical Center's allowance for doubtful accounts for self-pay patients was 100% of self-pay accounts receivable.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Medical Center considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Medical Center maintains a certain portion of its cash on deposit with the County Treasurer.

Capital Assets

Buildings, improvements, and equipment with a historical cost over \$5 and a useful life greater than three years are capitalized. Contributed capital assets are reported at their acquisition value at the date of donation.

Depreciation expense is provided using the straight-line method over the estimated useful lives of the respective classes of capital assets. Equipment under capitalized leases is amortized using the straight-line method over the lesser of minimum lease terms or estimated useful lives. The estimated useful lives for computing depreciation expense are as follows:

Buildings	40 Years
Improvements	3 to 25 Years
Equipment	3 to 20 Years

Leases – Lessee

The Medical Center determines if an arrangement is a lease at inception. Leases are included in lease assets and lease liabilities in the statements of net position.

Lease assets represent the Medical Center's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the Medical Center's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the Medical Center will exercise that option.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases – Lessee (Continued)

The Medical Center has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statements of net position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Medical Center has elected to use their incremental borrowing rate to calculate the present value of expected lease payments.

The Medical Center accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the Medical Center treats the components as a single lease unit.

Supplies Inventories

The Medical Center's inventory consists primarily of pharmaceuticals and medical supplies which are stated at lower of average cost or market.

Prepaid Expenses and Other Assets

The Medical Center's prepaid expenses and other assets are primarily prepayments for pharmaceuticals and medical supplies, rent, equipment, and maintenance contracts.

Compensated Absences

The Medical Center accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked, in accordance with County policy.

Net Position

Net position of the Medical Center is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Restricted net position is reduced by any liabilities payable from restricted assets. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

When both restricted and unrestricted resources are available for use, it is the Medical Center's policy to use restricted resources first, then unrestricted resources as they are needed.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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 and disclosures at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The deferred amount on refunding reported in the statement of net position as a deferred outflows of resources results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Other amounts reported as deferred outflows of resources and deferred inflows of resources are related to the Medical Center's proportion of the County's pension plan and will be recognized in pension expense in future periods. See Note 14 for further details.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County's cost-sharing multiemployer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee's Retirement Association (SBCERA) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For further information regarding the County Pool, refer to the San Bernardino County Annual Comprehensive Financial Report.

SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current Accounting Pronouncements

Governmental Accounting Standard No. 87

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for periods beginning after June 15, 2021.

Governmental Accounting Standard No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2020. The Statement did not have an effect on the Medical Center's financial statements.

Governmental Accounting Standard No. 92

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and finance reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Statement did not have an effect on the Medical Center's financial statements.

Governmental Accounting Standard No. 93

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Statement did not have an effect on the Medical Center's financial statements.

GASB Statement No. 99

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and finance reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. This Statement did not have an effect on the Medical Center's financial statements.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 2 CASH, AND CASH EQUIVALENTS

The Medical Center is a participant in the San Bernardino Treasurer’s Pool (County Pool). The County Pool is an external investment pool and is not registered with the Securities Exchange Commission (SEC). The County Pool is rated by Fitch ratings (NRSRO) at AAaf/S1+. The San Bernardino County Treasury Oversight Committee conducts County Pool oversight. Cash on deposit in the County Pool at June 30, 2022, are made on the basis of \$1 and not fair value.

The Medical Center’s cash as of June 30, 2022, consisted of the following:

Cash and Cash Equivalents	\$ 389,244
Total Cash and Investments	<u>\$ 389,244</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government 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 County Treasurer’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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. 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

GASB Statement No. 40 requires that disclosure be made with respect to custodial credit risks relating to deposits. The Medical Center did not have any cash with fiscal agent in excess of federal depository insurance limits held in uncollateralized accounts at June 30, 2022.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 3 NET PATIENT SERVICE REVENUE

The Medical Center provides services to eligible patients under Medi-Cal and Medicare programs. For the fiscal year ended June 30, 2022, the Medi-Cal program represented approximately 59%, and the Medicare program represented approximately 27%, of the Medical Center's net patient service revenue. Medi-Cal inpatient services are reimbursed at contractually agreed-upon per diem rates and outpatient services are reimbursed under a schedule of maximum allowances. Medicare inpatient services are reimbursed based upon pre-established rates for Medicare Severity-Diagnostic Related Group (MS-DRG). Outpatient services are reimbursed based on prospectively determined payments per procedure under a system called Ambulatory Payment Classifications. Certain defined capital and medical education costs related to Medicare beneficiaries continue to be paid based on a cost-reimbursement methodology. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under these programs and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Medical Center. Final reports on the results of such audits have been received through June 30, 2015 for Medi-Cal. Notice of Amount of Program Reimbursement (NPR) has been received for Medicare cost reports through June 30, 2019. Adjustments as a result of such audits are recorded in the year the amounts can be determined.

Net Patient Service Revenue

Net patient service revenue is comprised of the following for the year ended June 30, 2022. Revenue at established rates is computed as if charity care patient revenue was recognized.

Revenue at Established Rates	\$ 2,415,021
Medi-Cal New Eligible	2,544
Special Pharmacy	8,582
Medi-Cal Contractual Adjustments	(1,218,774)
Medicare Contractual Adjustments	(422,960)
Other Payors Contractual Adjustments	(213,968)
Charity Care	(75,704)
Provision for Bad Debts, Net	(37,924)
Net Patient Service Revenue	<u>\$ 456,817</u>

Gross patient service revenue by payor for the year ended June 30, 2022, were:

Medi-Cal	62 %
Medicare	23
Other Payors	11
Self-Pay	4
Total	<u>100 %</u>

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
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NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Net Patient Service Revenue (Continued)

At June 30, 2022, net patient accounts receivable consisted of:

Gross Patient Accounts Receivable at Established Rates	\$	490,135
Medi-Cal New Eligible, Net		3,303
Allowances:		
Medi-Cal		(184,610)
Medicare		(69,305)
Other Payors		(144,454)
Uncollectible Accounts		(59,827)
Net Patient Accounts Receivable	<u>\$</u>	<u>35,242</u>

Net Patient Accounts Receivable

Medi-Cal

The Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service (FFS) inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and legislation enacted by the state of California. Medi-Cal outpatient FFS services are reimbursed based on a fee schedule. The total payments made to the Medical Center will include a combination of Medi-Cal inpatient and outpatient FFS payments, Medi-Cal Disproportionate Share Hospital (DSH) payments and the Safety Net Care Pool (SNCP).

For the year ended June 30, 2022, the Medical Center recorded total Medi-Cal inpatient and outpatient net revenue of \$280,504, and related receivables of \$25,789.

Medi-Cal New Eligible

Beginning January 1, 2014, the Affordable Care Act (ACA) provides 100% matching of federal medical assistance percentages (FMAP) for newly eligible Medi-Cal patients. For the year ended June 30, 2022, the FMAP matching percentage was 90%. As a result, the Medical Center estimated the difference between cost and interim payments received. The Medical Center recorded estimated additional reimbursement for differences between cost and interim payments received of \$2,544 for the year ended June 30, 2022, which is included in net patient revenues. As of June 30, 2022, \$3,303 is included in net patient accounts receivable.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
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NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Net Patient Accounts Receivable (Continued)

CMS Advanced Payments

The CMS Advanced Payments balance consists of advanced payments received from the Centers for Medicare and Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by the COVID-19 pandemic. The Medical Center received \$29,428 in advanced payments during September 2020, which will be recouped through the Medicare claims processed beginning 365 days after the date of issuance of the advanced payments. This recoupment process will continue until the balance of the advanced payments has been recouped or for 29 months from the date that the advanced payments were issued, at which point any remaining unpaid balance is due. The advanced payments balance is noninterest bearing through the 29-month repayment period.

NOTE 4 SUPPLEMENTAL REVENUES

At June 30, 2022, supplemental revenue consisted of:

AB 85 Realignment and Managed Care Rate		
Range Supplemental	\$	69,599
Enhanced Payment Program		54,971
Global Payment Program		64,758
Other Supplemental Medi-Cal		26,733
AB 915		10,393
Whole Person Care Program		2,810
Medi-Cal Graduate Medical Education		8,670
Total Supplemental Revenue	<u>\$</u>	<u>237,934</u>

AB 85 Realignment and Managed Care Rate Range Supplemental

With California electing to implement a state-run Medicaid Expansion afforded by the Affordable Care Act, the state anticipates that counties' costs and responsibilities for the health care services for the indigent population will decrease, as much of this population becomes eligible for coverage through Medi-Cal or the Exchange. On June 27, 2013, Governor Brown signed into law AB 85 that provides a mechanism for the state to redirect state health realignment funding to fund social service programs. The redirected amount is determined according to respective formula options for California's 12 public hospital system counties. County groups will have an option to either have 60% of health realignment redirected, or, to use a formula-based approach that takes into account a county's cost and revenue experience, and redirect 80% of the savings realized by the county. AB 85 includes provisions for rate range intergovernmental transfers (IGT) for Medi-Cal managed care plans covering inpatient and outpatient services. Capitation rate ranges for Department of Healthcare Services (DHCS) County Organized Health Systems managed care programs were developed in accordance with rate setting guidelines established by CMS. As a result of participating in the AB 85 rate range IGT, the Medical Center recognized \$69,599 in redirected realignment revenue formula for the fiscal year ending June 30, 2022.

SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
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NOTE 4 SUPPLEMENTAL REVENUES (CONTINUED)

Enhanced Payment Program (EPP)

EPP is a funding pool that is used to supplement the base rates the Medical Center receives through Medi-Cal managed care contracts. EPP is meant to meet the managed care rule's exception that allows payments that provide a uniform increase within a class of providers such as a pre-determined increase over contracted rates. For the year ended June 30, 2022, the Medical Center reported EPP revenues of \$54,971. EPP revenues are included in supplemental revenues. Related EPP receivables as of June 30, 2022, were \$52,608. EPP receivables are included in due from other governments. The revenue is estimated based on historical payment history and anticipated changes to the program; however, actual amounts earned in fiscal year 2022 will not be known until fiscal year 2023.

Global Payment Program

California has created a global payment approach for the uninsured, which assists designated public hospital systems. This will help to focus on the value, not volume, of care provided to the uninsured, such as providing more primary and preventive care. The authority to implement the new Global Payment Program for Public Health Systems (GPP) is contingent upon CMS review and approval of the specific factors and parameters to be used in establishing the "points" system. Approximately \$2.9 billion in combined federal and state shares of expenditures has been allocated towards this new approach for demonstration year 11 as a part of CMS's approval of the California Medi-Cal 2020 demonstration extension, a portion of which is disproportionate share hospital (DSH) funding. The total amount available for the GPP is a combination of a portion of the State's DSH allotment that would otherwise be allocated to public hospitals and the amount associated with the SNCP (Safety Net Care Pool) provided under the "Bridge to Reform" Section 1115 waiver. Amounts for future years will be determined after completion of the first required uncompensated care report. The Medical Center received \$64,758 in GPP funding in fiscal year ended June 30, 2022.

Quality Incentive Program (QIP)

QIP is meant to meet the Managed Care Rule's exception that allows payments tied to performance. QIP converts funding from previously existing supplemental payments into a value-based structure. QIP payments are tied to the achievement of performance on a set of clinically established quality measures for Medi-Cal managed care enrollees. For the year ended June 30, 2022, the Medical Center reported QIP revenues of \$58,071. QIP revenues are included in net patient service revenues. Related QIP receivables as of June 30, 2022, were \$29,034. QIP receivables are included due from other governments. The revenue is estimated based on historical payment history and anticipated changes to the program; however, actual amounts earned in fiscal year 2022 will not be known until fiscal year 2023.

**SAN BERNARDINO COUNTY
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NOTE 4 SUPPLEMENTAL REVENUES (CONTINUED)

Assembly Bill 915

California’s Assembly Bill 915 (AB-915) was passed by the State Legislature and signed into law in 2002. This bill provides for the payment of a supplemental reimbursement to acute care hospitals owned by certain public entities that provide outpatient services to Medi-Cal beneficiaries. The Medical Center recorded \$10,393 in AB-915 funds for the year ended June 30, 2022.

Whole Person Care

Whole Person Care (WPC) is the coordination of health, behavioral health, and social services, as applicable, in a patient-centered manner with the goals of improved beneficiary health and wellbeing through more efficient and effective use of resources. WPC provides resources to integrate care for a particularly vulnerable group of Medi-Cal beneficiaries who have been identified as high users of multiple systems and continue to have poor health outcomes. The Medical Center recorded \$2,810 in WPC funds for the year ended June 30, 2022. DHCS received approval from the U.S. Centers for Medicare and Medicaid Services (CMS) for a one-year extension of California’s Section 1115 Medi-Cal 2020 demonstration waiver. Included in the approved extension is a one-year extension of Whole Person Care (WPC) Pilots.

Medi-Cal Graduate Medical Education

The Medi-Cal Graduate Medical Education (GME) proposal was approved by CMS during the year ended June 30, 2020 and effective back to January 2017. GME provides additional payments for public hospitals for Medi-Cal managed care beneficiaries, covering Medi-Cal’s share of the salaries and benefits of interns and residents receiving training at public hospitals, and certain indirect cost associated with their training. For the year ended June 30, 2022, the Medical Center reported Medi-Cal GME revenues of \$8,670.

NOTE 5 SETTLEMENTS DUE TO THIRD-PARTY PAYORS

At June 30, 2022, due to third-party payors consisted of:

Medi-Cal Settlement (Section 1115 Waiver)	\$ 1,156
Disproportionate Share Hospital (DSH) Settlements	50,656
AB 915 Settlements	47,538
Total Current Settlements Due to Third-Party Payors	\$ 99,350

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NOTE 5 SETTLEMENTS DUE TO THIRD-PARTY PAYORS (CONTINUED)

Effective November 1, 2010, CMS and the state agreed on the standard terms and conditions of the 5-year renewal of the waiver officially called the California Bridge to Reform Demonstration (Section 1115 Waiver). The Section 1115 Waiver established the Low-Income Health Program, which provides federal matching funding for enrollees. The funds available through the Waiver help California implement health care reform through investments in its safety net delivery system and expansion of coverage for adults. Due to the complexity of the program, the Medical Center has recorded an estimated settlement of \$1,156 related to the Section 1115 Waiver for the year ended June 30, 2022. Medi-Cal Section 1115 Waiver cost reports have not yet been finalized for the fiscal years 2014 through 2020.

Laws and regulations governing the Medicare, Medi-Cal, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

DHCS received approval from the U.S. Centers for Medicare and Medicaid Services (CMS) for a one-year extension of California's Section 1115 Medi-Cal 2020 demonstration waiver. DHCS requested an extension of the waiver in mid-2020 amid the ongoing COVID-19 pandemic.

NOTE 6 HOSPITAL FEE PROGRAM

AB 1383 of 2009, as amended by AB 1653 on September 8, 2010, established a series of Medicaid supplemental payments funded through a "Quality Assurance Fee" and a "Hospital Fee Program", which are imposed on certain California hospitals. The effective date of the Hospital Fee Program is April 1, 2009, through December 31, 2013, and is predicated in part on the enhanced Federal Medicaid Assistance Percentage (FMAP) contained in the American Reinvestment and Recovery Act (ARRA). The Hospital Fee Program made supplemental payments to hospitals for various health care services and support the State's effort to maintain health care coverage for children. The Medical Center, as a designated public hospital, is exempt from paying the "Quality Assurance Fee"; however, the Medical Center was eligible to receive supplemental payments under the Hospital Fee Program.

Under the Hospital Fee Program, designated public hospitals were eligible to receive direct grants (Direct Grants) for each approved federal fiscal year. For the fiscal year ended June 30, 2022, the Medical Center received direct grants totaling \$6,423, which has been reported as nonoperating revenue.

SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 CHARITY CARE

Charity care is that portion of patient care services provided by the Medical Center for which a third-party payor is not responsible, and a patient does not have the ability to pay. Eligibility for Charity Care is considered for those individuals, who are uninsured, underinsured, ineligible for any governmental health care benefit program, and unable to pay for their care, based upon a determination of financial need. Charity Care is made in accordance with the patient's financial need as determined by the Federal Poverty Level (FPL) in effect at the time of financial determination. The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The estimated cost of providing charity care is calculated by multiplying the ratio of cost to gross charges for the Medical Center by the gross uncompensated charges associated with providing charity care to its patients. The following information measures the level of charity care provided during the fiscal year ended June 30, 2022:

Cost of Caring for Charity Care Patients	\$ <u>23,010</u>
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NOTE 8 STATE DEBT SERVICE FUNDING

In 1991, the County Board of Supervisors approved the construction and financing plan of the Arrowhead Regional Medical Center project. The Inland Empire Public Facilities Corporation (Corporation) financed the project through the issuance of Certificates of Participation. The Corporation is a nonprofit public benefit corporation formed on May 30, 1986, to serve the County, including the Medical Center, by financing, refinancing, acquiring, constructing, improving, leasing, and selling buildings, building improvements, equipment, land, land improvements, and any other real or personal property for the benefit of the residents of the County. The Corporation is included in the County's reporting entity as a blended component unit. In fiscal year 1999, the Medical Center Project assets and liabilities were contributed to the Medical Center.

In accordance with the master lease agreement, the Medical Center is obligated to make aggregate lease payments to the Inland Empire Public Facilities Corporation (Corporation), a component unit of the County, each year as consideration for the use and occupancy of the Medical Center in an amount designated to be sufficient to pay the annual principal and interest due with respect to any construction debt outstanding. Senate Bill 1732 (SB-1732) was passed by the California Legislature and signed into law in October 1998. The law permits qualifying medical centers to receive reimbursement, in addition to their Medi-Cal contract reimbursement, for a portion of the debt service of qualified projects. Under SB-1732, the Medical Center estimates that it will receive proceeds equal to 51.27% of the total debt service costs. Amounts received by the Medical Center in SB- 1732 funds during fiscal year 2022 amounted to \$12,643, which are included as nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net position. The Medical Center had no related receivables at June 30, 2022.

SAN BERNARDINO COUNTY
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NOTE 9 CAPITAL ASSETS

A summary of capital assets activity for the year ended June 30, 2022, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not Being Depreciated:				
Construction-in-Progress	\$ 30,016	\$ 14,571	\$ -	\$ 44,587
Total Capital Assets not Being Depreciated	30,016	14,571	-	44,587
Capital Assets Being Depreciated:				
Land and Improvements	25,627	-	-	25,627
Buildings and Improvements	552,217	1,468	-	553,685
Equipment	207,979	16,243	(1,928)	222,294
Software	45	-	-	45
Total Capital Assets Being Depreciated	785,868	17,711	(1,928)	801,651
Lease Assets Being Amortized:				
Buildings and Improvements	14,447	-	-	14,447
Total Lease Assets Being Amortized	14,447	-	-	14,447
Less Capital Asset Accumulated Depreciation:				
Land and Improvements	(2,587)	(155)	-	(2,742)
Building and Improvements	(302,733)	(15,373)	-	(318,106)
Equipment	(178,396)	(8,132)	1,928	(184,600)
Software	(10)	(9)	-	(19)
Total Capital Asset Accumulated Depreciation	(483,726)	(23,669)	1,928	(505,467)
Less Lease Asset Accumulated Amortization:				
Building and Improvements	-	(2,444)	-	(2,444)
Total Capital Asset Accumulated Depreciation	-	(2,444)	-	(2,444)
Total Capital Assets Being Depreciated, Net	302,142	(5,958)	-	296,184
Total Lease Assets Being Amortized, Net	14,447	(2,444)	-	12,003
Total Capital Assets, Net	<u>\$ 346,605</u>	<u>\$ 6,169</u>	<u>\$ -</u>	<u>\$ 352,774</u>

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 TRANSACTIONS WITH THE COUNTY

The Medical Center uses the treasury function of the County and at times maintains a cash overdraft with the County which can be repaid only through collection of receivables. The Medical Center had no cash overdrafts as June 30, 2022.

The Medical Center is allocated a portion of the County's overhead costs. Such expenses totaled \$7,342 for the year ended June 30, 2022, and are included as operating expense in the accompanying statements of revenues, expenses, and changes in net position.

Transfers from the County were \$13,174 for the year ended June 30, 2022. Current year transfers were to fund the Medical Center's debt service payments.

Amounts due to the County in the amounts of \$766 for the year ended June 30, 2022, represents amounts due to Revenue Recovery, Sheriff, General Fund, Mental and Behavioral Health Departments, Architecture and Engineering for services provided and other departments related to services provided.

Amounts due from the County were \$8,017 for the year ended June 30, 2022. Current year amounts due from the County relate to amounts owed for the Medical Center's medical lease payment, prisoner pharmacy, Department of Behavioral Health, and cash collection due from the County's Revenue Recovery Department.

The year-end balances noted above for due to/due from are expected to be received and repaid within the next fiscal year.

NOTE 11 LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Certificates of Participation:					
Series 2019 A	\$ 190,280	\$ -	\$ (14,320)	\$ 175,960	\$ 15,100
Series 2019 B	23,815	-	(11,740)	12,075	12,075
Total Certificates of Participation, Gross	214,095	-	(26,060)	188,035	27,175
Add: Premium on Debt	28,349		(4,965)	23,384	4,965
Total Certificates of Participation	242,444	-	(31,025)	211,419	32,140
Direct Borrowing:					
Finance Purchase Obligations	1,926	140	(700)	1,366	613
Total	<u>\$ 244,370</u>	<u>\$ 140</u>	<u>\$ (31,725)</u>	<u>\$ 212,785</u>	<u>\$ 32,753</u>

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
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NOTE 11 LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation

The Medical Center's certificates of participation were issued by the Inland Empire Public Facilities Corporation (Corporation), a component unit of San Bernardino County.

Certificates of participation at June 30, 2022, consist of the following:

Series 1994

The Medical Center Series 1994 Certificates of Participation were dated February 1, 1994, in the amount of \$283,245 with interest rates from 4.60% to 7.00%.

The Series 1994 Certificates maturing on August 1, 2019, August 1, 2024, August 1, 2026, and August 1, 2028, were subject to optional redemption in whole on July 1, 2019 and were refunded in the fiscal year ended June 30, 2020 by the Arrowhead Refunding Project Series 2019 A Certificates of Participation.

The Series 1994 Certificates maturing through August 1, 2020 and August 1, 2022, which are not subject to optional redemption prior to maturity, were refunded on an advance basis in the fiscal year ended June 30, 2020 through the issuance of the Arrowhead Refunding Project Series 2019 B Certificates of Participation.

Series 1996

The Series 1996 Certificates of Participation were dated January 1, 1996, in the amount of \$65,070, with interest rates from 5.00% to 5.25%.

The Series 1996 Certificates were subject to optional redemption, in whole on July 1, 2019 and were refunded in the fiscal year ended June 30, 2020 by the Arrowhead Refunding Project Series 2019 A Certificates of Participation.

Series 2009 A

The Medical Center Series 2009 A Refunding Certificates of Participation were issued on December 17, 2009, in the amount of \$243,980. The proceeds were used to refund a portion of the Certificate of Participation, Series 1995 and all of the outstanding Certificate of Participation, Series 1998 and fund a payment with respect to the termination of a Swap agreement entered into in connection with the execution and delivery of the Certificate of Participation, Series 1998. Interest rates on the 2009 A series range from 3.00% to 5.5%. The 2009 A Refunding Certificates of Participation were subject to optional redemption on July 1, 2019 and were refunded in the fiscal year ended June 30, 2020 by the Arrowhead Refunding Project Series 2019 A Certificates of Participation.

SAN BERNARDINO COUNTY
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NOTE 11 LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation (Continued)

Series 2009 B

The Medical Center Series 2009 B Refunding Certificates of Participation were issued on December 17, 2009, in the amount of \$44,750. The proceeds were used to refund a portion of the outstanding Certificate of Participation, Series 1994. Interest rates on the 2009 B series range from 3.00% to 5.25%. The 2009 B Refunding Certificates of Participation were subject to optional redemption in whole on July 1, 2019 and were refunded in the fiscal year ended June 30, 2020 by the Arrowhead Refunding Project Series 2019 A Certificates of Participation.

Series 2019 A

The Arrowhead Refunding Project Series 2019 A Certificates of Participation were issued by the Inland Empire Public Facilities Corporation (IEPFC) on behalf of the Medical Center, dated July 1, 2019, in the amount of \$224,045, with an interest rate of 5% and a final maturity date in fiscal year 2028. The 2019 A series were sold at a premium of \$38,278. The proceeds from the issuance along with other available funds were used to refund the remaining outstanding principal balances of the 1996 Certificates, 2009 A Certificates, 2009 B Certificates, and the callable portion of the 1994 Certificates. The Certificates are not subject to optional prepayment prior to maturity.

Series 2019 B (Taxable)

The Arrowhead Refunding Project Series 2019 B (Taxable) Certificates of Participation were issued by the IEPFC on behalf of the Medical Center, dated July 1, 2019, in the amount of \$35,635, with interest rates of 2% to 2.05% and a final maturity date in fiscal year 2023. The proceeds from the issuances were used to advance refund the noncallable portion of the 1994 Certificates. The proceeds of the 2019 B certificates of \$35,635 along with other available funds of \$6,671 were placed into escrow and will earn interest at 1.74% to cover the remaining payments. The remaining balance of the defeased bonds at June 30, 2021 was \$38,040. The Certificates are not subject to optional prepayment prior to maturity.

Series 2019 A and B Refunding Transaction

The 2019 Series A and Series B Certificates were issued at a par amount of \$259,680. The Certificates were issued with a premium of \$38,278 and incurred \$6,218 in issuance cost, resulting in net proceeds of \$291,740. The net proceeds of \$291,740 along with \$55,089 of other available funds resulted in a combined reacquisition price of \$346,828 for the 1994 Certificates, 1996 Certificates, 2009 A Certificates, and 2009 B Certificates. The difference between the combined reacquisition price of \$346,828 and net carrying amount of the refunded debt of \$324,963, resulted in a deferred loss of \$21,865 which will be amortized as an adjustment to interest expense over the remaining life of the 2019 Series A and B certificates. The refunding decreased the aggregate debt service payments of the Medical Center by \$54,591 with an economic or present value gain of \$46,332.

**SAN BERNARDINO COUNTY
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NOTE 11 LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation (Continued)

Series 2019 A and B Refunding Transaction (Continued)

The 2019 A and B Certificates are secured by annual lease payments payable by the County for use of the facilities constructed or acquired from the Certificates' proceeds. If the County defaults on its obligations to make lease payments stipulated under the installment agreement, the Trustee, as assignee of the Corporation, may retain the lease agreement and hold the County liable for all lease payments on annual basis and will have the right to reenter and relet the facilities constructed or acquired from the Certificates' proceeds. In the event such reletting occurs, the County would be liable for any resulting deficiency in lease payments. Alternatively, the Trustee may terminate the lease agreement with respect to the Project and proceed against the County to recover damages pursuant to the lease agreement. Due to the specialized nature of the Project, no assurance is given that the Trustee will be able to relet any portion of the Project to provide rental income sufficient to make remaining payments of principal and interest on the Certificates in a timely manner, and the Trustee is not empowered to sell the Project for the benefit of the owners of the Certificates.

Debt Service Requirements

The total annual debt service requirements to maturity for the outstanding Certificates of Participation as of June 30, 2022 are summarized as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 27,175	\$ 8,544
2023	29,295	7,311
2024	30,800	5,808
2025	32,520	4,225
2026	34,265	2,556
2027	33,980	850
Total	<u>\$ 188,035</u>	<u>\$ 29,294</u>

**SAN BERNARDINO COUNTY
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NOTE 11 LONG-TERM OBLIGATIONS (CONTINUED)

Financed Purchase Obligations

The Medical Center has entered into financed purchase agreements with financial institutions and medical equipment manufacturers expiring at various dates through fiscal year ended 2022, providing for monthly payments at various interest rates. Equipment acquired under these agreements has been accounted for as financed purchase obligations.

Future obligations and net present value on these financed purchase obligations as of June 30, 2022, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 728
2024	399
2024	245
2025	<u>10</u>
Total Minimum Payments	1,382
Less: Amount Representing Interest	<u>(16)</u>
Present Value of Net Minimum Payments	1,366
Less: Current Portion of Finance Purchase Obligations	<u>(613)</u>
Finance Purchase Obligations, Excluding Current Portion	<u><u>\$ 753</u></u>

The gross value of equipment acquired under finance purchase obligations at June 30, 2022, was \$29,686, net of accumulated amortization of \$28,286.

The Medical Center's outstanding financed purchase obligations, secured by the related equipment of \$1,394, contain provision that in event of default, outstanding amounts may become immediately due if the Medical Center is unable to make payment.

NOTE 12 ARBITRAGE PAYABLE

Interest earned in excess of interest expense related to tax-exempt debt issued for public purposes must be remitted to the federal government following the end of each period of five bond years of the Certificates of Participation. The amount of excess investment earnings calculated as of June 30, 2022, totaled \$1,160.

**SAN BERNARDINO COUNTY
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NOTE 13 LEASES

Lease obligations consist of the following for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lease Liabilities	<u>\$ 14,447</u>	<u>\$ -</u>	<u>\$ (2,283)</u>	<u>\$ 12,164</u>	<u>\$ 2,272</u>

Total future minimum lease payments under lease agreements are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,272	\$ 95	\$ 2,367
2024	2,203	77	2,280
2025	2,088	59	2,147
2026	1,898	42	1,940
2027	1,955	24	1,979
2028-2032	1,748	7	1,755
Total Minimum Lease Payments	<u>\$ 12,164</u>	<u>\$ 304</u>	<u>\$ 12,468</u>

NOTE 14 RETIREMENT PLAN

Plan Description

Employees of the Medical Center participate in the San Bernardino County's (County) cost-sharing multiemployer defined benefit retirement plan (the Plan) administered by San Bernardino County Employee's Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement (Board) under the California County Employees' Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the San Bernardino County Board of Supervisors and/or the SBCERA Board. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, Attention: Fiscal Services Department, 348 W. Hospitality Lane, San Bernardino, California 92408.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 14 RETIREMENT PLAN (CONTINUED)

Benefits Provided

SBCERA provides retirement, disability, death, and survivor benefits. SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members, including the Medical Center's employees, are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is at least 50% of the full standard of hours required, are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The CERL and PEPRA establish benefit terms. Retirement benefits for the General Tier 1 and General Tier 2 Plans are calculated on the basis of age, average final compensation and service credit as follows:

	General - Tier 1	General - Tier 2
Final Average Compensation	Highest 12 consecutive months	Highest 36 consecutive months
Normal Retirement Age	The later of age 55 or the age at which the member vests in his/her benefits under the CERL, but not later than age 70	The later of age 55 or the age at which the member vests in his/her benefits under the CERL, but not later than age 70
Early Retirement: Years of service required and/or age eligible for	Age 70 any years 10 years of age 50 30 years any age	Age 70 any years 5 years of age 52 N/A
Benefit	At normal retirement age, 2.0% per year of final average compensation for every year of service credit	At age 67, 2.5% per year of final average compensation for every year of service credit
Benefit Adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67
Final Average Compensation Limitations	Internal Revenue Code Section 401(a)(17)	Government Code Section 7522.10

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 14 RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

An automatic cost of living adjustment is provided to benefit recipients based on changes in the local region Consumer Price Index (CPI) up to a maximum of 2% per year. Any increase greater than 2% is banked and may be used in years where the CPI is less than 2%. There is a one-time 7% increase at retirement for members hired before August 19, 1975. The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retired members, the death benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the members years of service or if the death was caused by employment. General members are also eligible for survivor benefits which are payable upon a member's death.

Contributions

Participating employers and active members (i.e., County), including the Medical Center and the Medical Center's employees, are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code Sections 31453.5 and 31454, for participating employers and Government Code Sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members' contributions through negotiations and bargaining agreements. Employer contribution rates for the year ended June 30, 2022, were 28.49% for Tier 1 General members, and 25.34% for Tier 2 General members.

The employee contribution rates for the fiscal year ended June 30, 2022, rates ranged between 9.05% and 15.77% for Tier 1 General members and 9.09% for Tier 2 General members. The Medical Center's proportionate share of the County's contribution to the Plan was \$53,010 for the year ended June 30, 2022.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 14 RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, the Medical Center reported a liability of \$85,163, for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Medical Center's proportion of the County's net pension liability was based on the Medical Center's FY 2020 actual contributions to the County's pension plan relative to the total contributions of the County as a whole. As of the June 30, 2021 measurement date, the Medical Center's proportion was 7.9726% compared to 10.8059% as of the June 30, 2020 measurement date, which was a decrease of 2.8333%.

For the year ended June 30, 2022, the Medical Center recognized pension expense of \$3,597. The Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>June 30, 2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 4,410	\$ 3,412
Changes in Actuarial Assumptions	42,122	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	75,875	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	26,282	2,553
Employer Contributions Paid by the Medical Center to SBCERA Subsequent to the Measurement Date	47,232	-
Total	<u>\$ 195,921</u>	<u>\$ 5,965</u>

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 14 RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$53,010 reported as deferred outflows of resources related to pensions resulting from the Medical Center's contributions to the County's plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Medical Center's proportion of the County's pension plan will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ (12,314)
2024	(15,594)
2025	(20,051)
2026	(36,298)
2027	(4,129)
Total	<u>\$ (88,386)</u>

Actuarial assumptions. The Medical Center's proportion of the County's total pension liability in the June 30, 2021, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>June 30, 2022</u>
Actuarial Valuation Date	June 30, 2021
Actuarial Cost Method	Entry Age Actuarial Cost Method
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Inflation	2.75%
Projected Salary Increases	General: 4.55% to 12.75%
Cost of Living Adjustments	Consumer Price Index with a 2.00% Maximum
Administrative Expenses	0.85% of Payroll

The actuarial assumptions used to determine the total pension liability as of June 30, 2022, were based on the results of the June 30, 2019, Actuarial Experience Study (experience study), which covered the period from July 1, 2016, through June 30, 2019.

Mortality rates used in the actuarial valuations dated June 30, 2022, were based on the Pub-2010 Amount- Weighted Above-Median Mortality Table projected generationally with the two-dimensional MP-2019 projection scale. For healthy General members, the General Healthy Retiree rates increased by 10% were used. For disabled General members, the nonsafety Disabled Retiree rates were used. For beneficiaries, the General Contingent Survivor rates increased by 10% were used.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 14 RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The long-term expected rate of return on Plan investments used in the June 30, 2021, valuation was determined using a building block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. This information is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocations (approved by the SBCERA Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions, are summarized in the table below.

Long-Term Expected Real Rate of Return		As of June 30, 2021 Valuation Date	
Asset Class	Investment Classification	Target Allocation*	Long-Term Expected Real Rate of Return (Arithmetic)
Large Cap U.S. Equity	Domestic Common and Preferred Stock	11.00%	5.42%
Small Cap U.S. Equity	Domestic Common and Preferred Stock	2.00	6.21
Developed International Equity	Foreign Common and Preferred Stock	9.00	6.50
Emerging Market Equity	Foreign Common and Preferred Stock	6.00	8.80
U.S. Core Fixed Income	U.S. Government and Municipals/Corporate Bonds	2.00	1.13
High Yield/Credit Strategies	Corporate Bonds/Foreign Bonds	13.00	3.40
International Core Fixed Income	Foreign Bonds	1.00	(0.04)
Emerging Market Debt	Emerging Market Debt	8.00	3.44
Real Estate	Real Estate	3.50	4.57
Cash and Equivalents	Short-Term Cash Investment Funds	2.00	(0.03)
Value Added Real Estate	Real Estate	3.50	6.53
Real Assets	Domestic Alternatives/Foreign Alternatives	5.00	10.64
Absolute Return	Domestic Alternatives/Foreign Alternatives	7.00	3.69
International Credit	Foreign Alternatives	11.00	5.89
Private Equity	Domestic Alternatives/Foreign Alternatives	16.00	10.70
	Total	<u>100.00%</u>	

* For actuarial purposes, target allocations only change once every three years based on the actuarial experience study.

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for the June 30, 2021, measurement date. The projection of cash flows used to determine the discount rates assumed that contributions from participating employers and active members are made at the actuarially determined contribution rates. For this purpose, only employer and member contributions that are intended to fund benefits of current members and their beneficiaries are included. Projected employer contributions that are intended to fund the service cost of future members and their beneficiaries, as well as projected contributions from future members, are not included. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefits payments of current members. Therefore, for the June 30, 2021, measurement date, the long-term expected rate of return on pension plan investments of 7.25% was applied to all periods of projected benefit payments to determine the total pension liabilities.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 14 RETIREMENT PLAN (CONTINUED)

Sensitivity of the Medical Center's Proportionate Share of the County's Net Pension Liability to Changes in the Discount Rate

The following table presents the Medical Center's proportionate share of the County's net pension liability using the discount rate of 7.25% as of June 30, 2021, as well as what the employers' allocated net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
Medical Center's Proportionate Share of the County's Pension Liability	\$ 301,083	\$ 85,163	\$ (91,488)

Pension Plan Fiduciary Net Position

Detailed information about the County's collective net pension liability is available in the County's separately issued Annual Comprehensive Financial Report (ACFR). The San Bernardino County's financial statements may be obtained by contacting the San Bernardino County's Auditor- Controller/Treasurer/Tax Collector's office at 268 W. Hospitality Lane, San Bernardino, California 92415-0018. Detailed information about the SBCERA's fiduciary net position is available in a separately issued SBCERA Annual Comprehensive Financial Report. That report may be obtained on the Internet at www.SBCERA.org; by writing to SBCERA, Fiscal Services Department, 348 W. Hospitality Lane, San Bernardino, California 92408.

NOTE 15 SELF-INSURANCE

The Medical Center participates in the County's self-insurance programs for general liability, unemployment insurance, employee dental insurance, medical malpractice, and workers' compensation claim-related risks.

The activities related to the self-insurance programs are accounted for in the County's Risk Management Funds, separate internal service funds of the County, except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund of the County. The Medical Center participates in these plans through a premium based arrangement that consists of annual amounts not subject to adjustment for adverse claims. Insurance premium expense for the year ended June 30, 2022, was \$9,112.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)**

NOTE 16 CONTINGENCIES

The Medical Center is the defendant in various lawsuits and other claims arising in the ordinary course of its operations. In the opinion of County Counsel and County officials, the ultimate outcome of these matters will have no significant effect on the financial condition or operations of the Medical Center.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to periodic government review, interpretation and audits, as well as regulatory actions unknown and unasserted at this time. Management believes that the Medical Center is in compliance with government law and regulations related to fraud and abuse and other applicable areas. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as regulatory actions unknown or unasserted at this time.

COVID-19 Pandemic

During 2020, the world-wide Coronavirus pandemic impacted national and global economies. The Medical Center is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Medical Center is not known.

Commitments

On August 6, 2019, the Medical Center awarded an agreement with an estimated five-year cost not to exceed \$29,738 for the purchase, installation and maintenance of a fully integrated Electronic Health Record system. The agreement does not have a termination date. The Medical Center has incurred \$17,352 under this agreement as of June 30, 2022, and the amount is included in construction in progress.

NOTE 17 PROVIDER RELIEF FUNDS

During the fiscal year ended June 30, 2022, The Medical Center received \$12,200 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds (PRF) administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to Coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to Coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. A deadline to incur eligible expenses of June 30, 2023, was applicable to the Medical Center based on the date the Medical Center received the funds during the year ended June 30, 2022. The Medical Center recognized \$12,200 of PRF revenues that were based on healthcare-expenses attributable to Coronavirus and deemed reimbursable by the HHS terms and conditions and guidance available as of the date of the financial statements during the year ended June 30, 2022.

SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022
(IN THOUSANDS)

NOTE 17 PROVIDER RELIEF FUNDS (CONTINUED)

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation and future clarification. In addition, this program may be subject to oversight, monitoring, and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. The Medical Center recognized all the Provider Relief Funds received during the year ended June 30, 2022, as nonoperating revenue.

NOTE 18 CORONAVIRUS GRANTS

During the fiscal year ended June 30, 2022, the Medical Center received \$21,299 of Coronavirus related grant funding of which \$20,931 was received through the Coronavirus Relief Fund administered by the Department of Treasury. Coronavirus Relief Funds are subject single audit in accordance with 2 CFR part 200 of the uniform guidance and subject to the applicable compliance requirements identified under CFDA 21.019 of part 4 of the compliance supplement. These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as allowable cost are considered incurred in accordance with 2 CFR part 200 of the uniform guidance and CFDA 21.019. As these funds are considered subsidies, they are considered nonoperating activities.

NOTE 19 SUBSEQUENT EVENT

In June of 2022, the Medical Center entered into a lease arrangement with a third party for use of a building for 10 years commencing on October 1, 2023. Monthly lease payments begin at \$192 during the first 12 months and increase to \$232 per month in the final year of the lease.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
SCHEDULE OF MEDICAL CENTER'S PROPORTIONATE SHARE OF THE COUNTY'S NET PENSION LIABILITY
LAST TEN FISCAL YEARS*
(IN THOUSANDS)**

	2022	2021	2020	2019	2018	2017**	2016	2015
Medical Center's Proportion of the Net Pension Liability	7.9726%	10.8059%	9.9830%	9.6120%	9.6429%	9.9413%	9.6247%	9.9238%
Medical Center's Proportionate Share of the County's Net Pension Liability	\$ 85,163	\$ 359,572	\$ 221,760	\$ 198,603	\$ 210,298	\$ 203,926	\$ 156,238	\$ 142,685
Medical Center's Covered Payroll	\$ 191,943	\$ 176,415	\$ 164,912	\$ 153,606	\$ 145,524	\$ 140,811	\$ 139,029	\$ 136,500
Medical Center's Net Pension Liability as a Percentage of the Covered Payroll	44.37%	203.82%	134.47%	129.29%	144.51%	144.82%	112.38%	104.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.19%	71.96%	79.61%	78.89%	77.90%	76.86%	80.98%	82.47%
Measurement Date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014

Notes to Schedule:

* Fiscal year 2015 was the first year of implementation, therefore, only eight years are shown.

** Fiscal 2017 County adopted GASB 82, which required the restatement of covered employee payroll to covered payroll, and covered payroll includes only pensionable earnings.

In 2022, there was no changes of assumptions. Amounts reported in 2022 primarily reflect the 32.61% return on the market value of assets during 2020-2021 that was higher than the assumed return of 7.25% and the changes in benefit terms based on a decision in the Alameda County Deputy Sheriffs' Assn. et al. v. Alameda County Employees' Retirement Assn. litigation issued by the California Supreme Court on July 30, 2020. The Board of Retirement adopted Resolution 2020-5, which detailed the implementation of the Alameda decision including reclassifying certain pay items for inclusion in compensation earnable. The results in this valuation reflect the reclassification of those pay codes, which reduced the Plan's net pension liability by \$132.8 million.

In 2021, the actuarial assumptions used in the June 30, 2020 valuation were based on the results of the actuarial experience study for the period from July 1, 2016 through June 30, 2019. Amounts reported in 2021 primarily reflect a decrease of 0.25% inflation rate, an increase of 0.15% payroll for administrative expenses, and adjustments of projected salary increases and mortality rates to more closely reflect actual experience. Mortality rates were based on the Pub-2010 Amount-Weighted Above-Median Mortality Table projected generationally with the two-dimensional MP-2019 projection scale.

In 2019 and 2020, there were no changes of assumptions. In 2018, the actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2013 through June 30, 2016. Amounts reported in 2018 primarily reflect a decrease of 0.25% for both the investment rate of return and inflation rate, an increase of 0.1% of payroll for administrative expenses, and adjustments of projected salary increases and mortality rates to more closely reflect actual experience. Mortality rates used in the June 30, 2017 actuarial valuation were based on the Headcount-Weighted RP 2014 Healthy Annuitant Mortality Table rather than on the RP-2000 Combined Healthy Mortality Table, which was used to determine amounts reported prior to 2018.

**SAN BERNARDINO COUNTY
ARROWHEAD REGIONAL MEDICAL CENTER
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS*
(IN THOUSANDS)**

	<u>2022</u>	<u>2021***</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017**</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 53,010	\$ 47,063	\$ 42,632	\$ 39,884	\$ 32,911	\$ 31,205	\$ 30,662	\$ 27,810
Contributions in Relation to the Contractually Required Contribution	<u>(53,010)</u>	<u>(47,063)</u>	<u>(42,632)</u>	<u>(39,884)</u>	<u>(32,911)</u>	<u>(31,205)</u>	<u>(30,622)</u>	<u>(27,810)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40</u>	<u>\$ -</u>
Medical Center's Covered Payroll	\$ 200,387	\$ 191,943	\$ 176,415	\$ 164,912	\$ 153,606	\$ 145,524	\$ 140,811	\$ 139,029
Contributions as a Percentage of Covered Payroll	26.45%	24.52%	24.17%	24.19%	21.43%	21.44%	21.78%	20.00%

Note to Schedule:

* Fiscal year 2015 was the first year of implementation, therefore, only eight years are shown.

** Fiscal 2017 County adopted GASB 82, which required the restatement of covered employee payroll to covered payroll, and covered payroll includes only pensionable earnings.

*** 2021 Contributions have been revised due to the Plan corrected an error on the 415 replacement benefit plan adjustment.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Supervisors and Audit Committee
Arrowhead Regional Medical Center
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Arrowhead Regional Medical Center (the "Medical Center"), a component unit of San Bernardino County, California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 16, 2023.

Report on Internal Control Over Financial Reporting

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

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

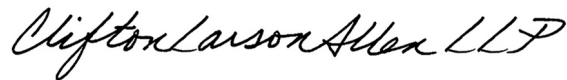
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of This Report

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



CliftonLarsonAllen LLP

Roseville, California
March 16, 2023



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