

Audited Financial Statements
TULARE LOCAL
HEALTH CARE DISTRICT
June 30, 2021

Audited Financial Statements

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2021

Audited Financial Statements

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Management's Discussion and Analysis

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2021

Overview

Management of the Tulare Local Healthcare District (“District”) has prepared this annual discussion and analysis to provide an overview of the District’s performance for the fiscal year ended June 30, 2021, in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements; Management’s Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information regarding the District’s financial performance, along with a discussion of future operations of the District as it conducts its Chapter 9 Bankruptcy Plan of Adjustment (the “Plan”) and works closely with Adventist Health Tulare (“Adventist”), operator of the District’s hospital facility and its Tenant under that certain Lease, dated as of February 12, 2019. The Management discussion should be reviewed in conjunction with the audited financial statements and accompanying notes for the fiscal year ended June 30, 2021, to enhance one’s understanding of the District’s recent financial performance.

Background

Tulare Regional Medical Center (“Hospital”) closed for business on October 29, 2017, after filing for Chapter 9 Bankruptcy on September 30, 2017. On October 15, 2018, the Hospital re-opened under the management of Adventist Health Tulare, a private, nonprofit corporation. Adventist assumed operations of the Hospital on March 15, 2019, under an initial 5.5-year (“Lease”) with subsequent 5-year automatic extensions, for a total 30-year lease. During FY19, the District secured two lines of credit to open the Hospital and assist with ongoing operational expenses: (1) a \$10 million line of credit from Adventist for operating and improvement expenses related to the re-opening of the Hospital, as well as post-opening capital improvement expenses per the Lease; and (2) a \$9 million line of credit from the City of Tulare for ongoing business operations and funding certain bankruptcy and legal claims payments.

The District’s Chapter 9 Plan of Adjustment was effective October 17, 2019. Bankruptcy payments are set to start by October 2025.

The District refinanced both its General Obligation and Revenue Bonds generating an overall savings for taxpayers and the District. The Revenue Bond refinancing also paid off the City of Tulare line of credit.

Key and Financial Activities for the Year

1. Sold 4-acres of undeveloped land for the sum of \$1,941,114.
2. Continued the resolution of the Bankruptcy Plan resulting in all but five claims being settled.
3. Continued to improve its real property interests and in FY21 increased construction in progress and fixed

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

4. assets by a net amount of \$1,287,676; of which, \$1,262,933 was related to Hospital capital improvements required by the Lease, which amount was added to the Adventist line of credit.
5. Provided financial support to Evolutions Wellness and Fitness Center to protect the business interest, which will transition back to the District, from experiencing a negative financial effect resulting from COVID-19.
6. Established the Tower Construction Committee, which will serve a significant role in the timely and efficient completion of the Hospital Tower by carefully considering all matters related to the Tower's construction and advising the District's Board of Directors.
7. Established and began recruiting efforts for a project manager that will oversee construction of the Tower and manage other District real property interests.
8. Hired a business/asset development consultant to optimize the District's use of its real property to attract and retain medical service providers for the benefit of Tulare.
9. Hired a funding strategy consultant to work with District staff, the Tower Construction Committee, and the Tulare Hospital Foundation to develop a feasibility study to determine Tower funding needs and potential funding sources.

All financial matters described previously, along with the resultant impact of the District's ongoing execution of its Chapter 9 Plan of Adjustment, form the basis of the fiscal year ended June 30, 2021 audited financial statements.

Future Initiatives

The District is developing a short-term and long-term strategic vision, which will include, without limitation, the following actions and initiatives:

Continue to serve as Landlord to Adventist Health Tulare, in addition to managing various other real property rentals.

Implement a transition plan to end the contract with EVO Management Company, LLC and resume control of Evolutions Wellness and Fitness Center ("Evolutions"). The transition is deliberately on hold to ensure that Evolutions is strategically positioned to benefit from additional CARES Act PPP funding opportunities, otherwise unavailable to the District as a public agency. In order to provide financial support to Evolutions during its COVID-19 related mandatory cessation of operations, the District is undertaking advance payment of preexisting debt and restructuring the facility operations related to the Evolutions Plaza (in which Evolutions is located). The District expects Evolutions to run at a deficit until its membership numbers return to pre-COVID levels.

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

With regards to the Plan, the District continues to pursue recoveries on two preferential transfers and litigate to conclusion or settlement five claim objections. Per the Plan, the District will establish a separate bank account for payment of Class 8 claims.

A civil suit continues to be litigated against the District's former general counsel.

JWT & Associates, LLP

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Report of Independent Auditors

The Board of Directors
Tulare Local Health Care District
Tulare, California

We have audited the accompanying financial statements of the Tulare Local Health Care District (the District) which comprise the statements of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Other Matters - Bankruptcy Uncertainties

As more fully described in Note K, on September 30, 2017, the District filed a voluntary petition for relief under Chapter 9 of Title 11 of the United States Code (the Bankruptcy Code). The District incurred negative cash flows from Hospital operations and was unable to meet certain of its future obligations. These conditions raised substantial doubt about the District's ability to continue Hospital operations in the future and as a result, the District closed its Hospital operations. The Hospital operations have since reopened. Although certain adjustments have been made to these financial statements as a result of the bankruptcy proceedings, the financial statements do not include all adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from further bankruptcy proceedings.

Opinion

In our opinion, except for the matters discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the District at June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JW7 & Associates, LLP

Fresno, California
November 16, 2021

Statements of Net Position

TULARE LOCAL HEALTH CARE DISTRICT

	June 30	
Assets	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 5,645,253	\$ 3,434,785
Assets limited as to use available for current debt service	2,858,907	3,655,256
Rents receivable	21,843	49,174
Other receivables	966,856	1,358,890
Estimated third party payor settlements and other receivables		267,168
Prepaid expenses and deposits	<u>74,741</u>	<u>77,850</u>
Total current assets	9,567,600	8,843,123
Assets limited as to use	13,679,406	12,519,782
Capital assets, net of accumulated depreciation	<u>121,708,214</u>	<u>122,621,574</u>
Total assets	144,955,220	143,984,479
Deferred outflows of resources		<u>119,887</u>
	<u>\$144,955,220</u>	<u>\$144,104,366</u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 2,624,038	\$ 5,338,354
Accounts payable and accrued expenses	2,109,799	6,267,253
Accrued payroll and related liabilities	<u>11,254</u>	<u>10,608</u>
Total current liabilities	4,745,091	11,616,215
Long-term bankruptcy payables	5,000,000	5,000,000
Debt borrowings, net of current maturities	<u>101,056,455</u>	<u>101,910,506</u>
Total liabilities	110,801,546	118,526,721
Net position		
Invested in capital assets, net of related debt	32,539,214	30,797,574
Restricted, by bond indenture agreements for debt service	16,538,313	16,175,038
Unrestricted (deficit)	<u>(14,923,853)</u>	<u>(21,394,967)</u>
Total net position	<u>34,153,674</u>	<u>25,577,645</u>
	<u>\$144,955,220</u>	<u>\$144,104,366</u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2021</u>	<u>2020</u>
Operating revenues		
Former patient residual collections	\$ 752,613	\$ 1,628,554
District tax revenues used for operations	2,230,923	2,089,944
Investment income	8,136	312,203
Other operating revenue	<u>2,989,432</u>	<u>2,382,614</u>
Total operating revenues	5,981,104	6,413,315
Operating expenses		
Salaries and wages	323,558	252,380
Employee benefits	63,152	57,342
Professional fees	664,980	1,628,031
Supplies	6,245	19,167
Purchased services	251,845	548,063
Repairs and maintenance	17,109	35,193
Utilities and phone	94,884	117,252
Building and equipment rent	99,529	82,125
Insurance	355,587	491,124
Depreciation and amortization	1,721,501	1,700,007
Other operating expenses	<u>65,882</u>	<u>55,173</u>
Total operating expenses	<u>3,664,272</u>	<u>4,985,857</u>
Operating income (loss)	2,316,832	1,427,458
Nonoperating revenues (expenses)		
District tax revenues	4,818,643	8,435,711
Interest expense	(3,669,578)	(6,442,619)
Gain (loss) on sale of assets, refinancing and other	2,007,708	(1,670,722)
Forgiveness of debt through bankruptcy proceedings	<u>3,102,424</u>	<u>1,407,412</u>
Total nonoperating revenues (expenses), net	<u>6,259,197</u>	<u>1,729,782</u>
Net increase in net position	8,576,029	3,157,240
Net position at beginning of the year	<u>22,577,645</u>	<u>22,420,405</u>
Net position at end of the year	<u>\$ 34,153,674</u>	<u>\$ 25,577,645</u>

See accompanying notes and auditor's report

Statements of Cash Flows

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from former patient residual collections and other	\$ 1,047,112	\$ 1,483,227
Cash received from other operations	5,620,525	3,881,633
Cash payments to suppliers and contractors	(5,710,406)	(6,524,821)
Cash payments to employees and benefit programs	<u>(386,064)</u>	<u>(315,370)</u>
Net cash provided by (used in) operating activities	571,167	(1,475,331)
Cash flows from capital financing activities:		
District tax revenues related to debt service	4,818,643	8,435,711
Net changes in capital assets and other changes	4,421,878	(533,652)
Proceeds from debt borrowings	1,370,235	107,047,455
Principal payments on debt borrowings and other	(4,938,602)	(105,302,641)
Interest payments on debt borrowings	<u>(3,669,578)</u>	<u>(6,442,619)</u>
Net cash provided by capital financing activities	2,002,576	3,204,254
Cash flows from investing activities:		
Net (purchase) or sale of assets limited as to use	<u>(363,275)</u>	<u>(1,093,330)</u>
Net cash (used in) investing activities	<u>(363,275)</u>	<u>(1,093,330)</u>
Net increase in cash and cash equivalents	2,210,468	635,593
Cash and cash equivalents at beginning of year	<u>3,434,785</u>	<u>2,799,192</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,645,253</u></u>	<u><u>\$ 3,434,785</u></u>
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,316,832	\$ 1,427,458
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,721,501	1,700,007
Changes in operating assets, liabilities and other:		
Receivables	419,365	(933,689)
Prepaid expenses and deposits	3,109	87,002
Accounts payable and accrued expenses	(4,157,454)	(3,635,695)
Accrued payroll and related liabilities	646	(5,648)
Estimated third party payor settlements	<u>267,168</u>	<u>(114,766)</u>
Net cash (used in) operating activities	<u><u>\$ 571,167</u></u>	<u><u>\$ (1,475,331)</u></u>

See accompanying notes and auditor's report

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2021

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: Tulare Local Health Care District (the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from specified areas within the District to specified terms of office. The District is located in Tulare, California. It owns a 108-bed acute care Hospital facility which it leases to Adventist Health - Tulare, a California non-profit organization which operates the Hospital. Through this leasing arrangement with Adventist Health - Tulare, the District is able to provide health care services primarily to individuals who reside in the local geographic area, thus accomplishing the mission and purpose of the District.

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus, according to recent GASB Statements. The District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

Management's Discussion and Analysis: Effective July 1, 2002, the District adopted the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. One of the main components of these new provisions allows the inclusion of a management's discussion and analysis to accompany the financial statement presentation.

The management's discussion and analysis is a narrative introduction and analytical overview of the District's financial activities for the year being presented. As stated in the opinion letter, the management's discussion and analysis is not a required part of the financial statements but is supplementary information and therefore not subject to audit procedures or the expression of an opinion on it by auditors.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Assets Limited as to Use: Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment and as of June 30, 2021, the District has made certain allowances for these impairments.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources: Deferred outflows of resources are comprised of deferred financing cost of the issuance of various bonds. Amortization of these issuance costs is computed by the straight-line method over the life of the repayment agreements. For current and advance refundings which result in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized deferred financing costs, is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, in accordance with GASB 23. Amortization expense was \$119,887 and \$117,451 for the years ended June 30, 2021 and 2020, respectively.

Compensated Absences: The District's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2021 and 2020 are \$7,217 and \$6,892, respectively.

Risk Management: The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Net Position: Net position (formerly net assets) are presented in three categories. The first category is net position "invested in capital assets, net of related debt". This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is "restricted" net position. This category consists of externally designated constraints placed on those net position by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is "unrestricted" net position. This category consists of net position that do not meet the definition or criteria of the previous two categories.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Former Patient Residual Collections: Former patient residual collections are patient collections that are continuing to be received long after the patient had received service for care when the District was operating the Hospital. These amounts are basically comprised of accounts that had previously been written off or allowed for.

District Tax Revenues: The District receives approximately 65% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date

Grants and Contributions: From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. For the fiscal year ended June 30, 2021 and 2020, operating revenues include revenues from exchange transactions associated with providing health care services, plus other revenues. Operating expenses include expenses incurred to provide health care services between those dates previously mentioned, plus other costs incurred during the fiscal year. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

Reclassifications: Certain financial statement amounts as presented in the prior year financial statements have been reclassified in these, the current year financial statements, in order to conform to the current year financial statement presentation.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Revenue Recognition: Net patient service revenues were reported at amounts that reflected the consideration to which the District expected to be entitled in exchange for patient services. These amounts were due from patients, third-party payors (including health insurers and government programs), and others and included variable consideration for retroactive revenue adjustments due to settlement of third-party payor audits, reviews, and investigations. Although the District is no longer managing the Hospital operations, it is still collecting residual patient collections from old patient accounts. This type of revenue is a result of when the District was operating the Hospital wherein and generally, the District would bill the patients and third-party payors several days after the patient received healthcare services at the Hospital. Revenue was then recognized as services were rendered.

The District had agreements with third-party payors that provided for payments to the District at amounts different from its established rates. Payment arrangements included prospectively determined rates per day, discharge or visit, reimbursed costs, discounted charges and per diem payments. Retroactive adjustments were accrued on an estimated basis in the period the related services were rendered and adjusted in future periods as final settlements were determined. To date, some of those final settlements are still in process of being determined and are considered to be former patient residual collections.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the asset is to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived asset is placed in service. Cash received in excess of revenue is deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Donor restricted contributions whose restriction expire during the same fiscal year are recognized as net assets without donor restrictions. Absent donor imposed restrictions, the District records donated services, materials, and facilities as net assets without donor restrictions.

From time to time, the District receives grants from various governmental agencies and private organizations. Revenues from grants are recognized when all eligibility requirements, including time requirements are met. Grants may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported in the statement of revenues, expenses and changes in net position.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2021 and 2020, the District had operating deposits invested in various financial institutions in the form of cash and cash equivalents amounted to \$5,645,253 and \$3,434,654. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

NOTE C - FORMER PATIENT RESIDUAL COLLECTIONS

When the District was operating the Hospital, it had agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of those payment arrangements with major third-party payors were as follows:

Medicare: Payments for inpatient acute care services rendered to Medicare program beneficiaries were based on prospectively determined rates, which varied accordingly to the patient diagnostic classification system. Outpatient services were generally paid under an outpatient classification system subject to certain limitations. The District was subject to cost reimbursement methodologies for the rural health clinics. Other reimbursement matters were also subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2021 all open settlements have been settled.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal patients were made based on reasonable costs through December 31, 2013. Effective January 1, 2014, the State of California's Medi-Cal program changed inpatient reimbursement to Diagnosis-Related Groups (DRG), similar to the Medicare inpatient payment methodology. Outpatient payments were paid on pre-determined charge screens. Medi-Cal managed care services were paid on pre-determined rates and were not subject to cost reimbursement. At June 30, 2021 all open settlements have been settled.

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

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE C - FORMER PATIENT RESIDUAL COLLECTIONS (continued)

Former patient residual collections are summarized as follows:

	<u>2021</u>	<u>2020</u>
Former patient residual collections	\$ 121,212	\$ 585,489
Supplemental program collections related to former patient care	<u>631,401</u>	<u>1,043,065</u>
Total former patient residual collections	<u>\$ 752,613</u>	<u>\$ 1,628,554</u>

Although the District no longer is providing health care services, it is still in the process of collecting payments on former patient accounts from patient services rendered before the transfer of the Hospital operations as well as supplemental programs that were in effect at that time.

NOTE D - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Medicare		\$ 45,207
Medi-Cal		83,415
Other third party payors		35,616
Self pay and other	<u>\$ 55,124</u>	<u>104,438</u>
Gross patient accounts receivable	55,124	268,676
Less allowances for contractual adjustments and bad debts	<u>(15,463)</u>	<u>(206,022)</u>
Net patient accounts receivable	<u>\$ 39,661</u>	<u>\$ 62,654</u>

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE D - CONCENTRATION OF CREDIT RISK (continued)

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000. Although deposits exceed the limit in certain bank accounts, management believes that the risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss due to concentration of credit risk with regards to investments as the District has no investments in equity funds, closed-end funds, exchange-traded products, or other perceived “at risk” alternatives as of June 30, 2021 and 2020.

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2021 and 2020 were comprised of the following:

	<u>2021</u>	<u>2020</u>
Tulare Local County property taxes	\$ 101,881	\$ 101,122
Net patient accounts receivable from Note D	39,661	62,654
Other various receivables, net	<u>855,312</u>	<u>1,195,114</u>
	<u>\$ 996,854</u>	<u>\$ 1,358,890</u>

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2021 and 2020 were comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents held for general obligation bond debt service	\$ 14,306,821	\$ 14,728,122
Cash and cash equivalents and debt securities held under revenue bond indenture agreements for debt service requirements	<u>2,231,492</u>	<u>1,446,916</u>
	16,538,313	16,175,038
Less amounts available for current obligations	<u>(2,858,907)</u>	<u>(3,655,256)</u>
	<u>\$ 13,679,406</u>	<u>\$ 12,519,782</u>

Interest income, dividends, and other like-kind earnings are recorded as investment income. Unrealized gains and (losses) are also recorded as investment income.

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE G - CAPITAL ASSETS

Capital assets as of June 30, 2021 and 2020 were comprised of the following:

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Transfers & Retirements</u>	<u>Balance at June 30, 2021</u>
Land and land improvements	\$ 3,523,284		\$ (596,987)	\$ 2,926,297
Buildings and improvements	45,697,901		896,476	46,594,377
Equipment	1,443,431		34,654	1,478,085
Construction-in-progress	<u>110,583,240</u>	<u>1,287,676</u>	<u>(931,130)</u>	<u>110,939,786</u>
Totals at historical cost	161,247,856	1,287,676	(596,987)	161,938,545
Less accumulated depreciation for:				
Land and land improvements	(1,207,421)	(60,126)		(1,267,547)
Buildings and improvements	(35,991,733)	(1,519,355)		(37,511,088)
Equipment	<u>(1,427,128)</u>	<u>(24,568)</u>		<u>(1,451,696)</u>
Total accumulated depreciation	<u>(38,626,282)</u>	<u>(1,604,049)</u>		<u>(40,230,331)</u>
Capital assets, net	<u>\$122,621,574</u>	<u>\$ (316,373)</u>	<u>\$ (596,987)</u>	<u>\$121,708,214</u>
	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Transfers & Retirements</u>	<u>Balance at June 30, 2020</u>
Land and land improvements	\$ 3,573,643		\$ (50,359)	\$ 3,523,284
Buildings and improvements	45,700,494	\$ 7,530	(10,123)	45,697,901
Equipment	3,208,376		(1,764,945)	1,443,431
Construction-in-progress	<u>111,204,120</u>	<u>1,079,324</u>	<u>(1,700,204)</u>	<u>110,583,240</u>
Totals at historical cost	163,686,633	1,086,854	(3,525,631)	161,247,856
Less accumulated depreciation for:				
Land and land improvements	(1,155,785)	(60,270)	8,634	(1,207,421)
Buildings and improvements	(35,454,684)	(1,517,166)	980,117	(35,991,733)
Equipment	<u>(3,142,375)</u>	<u>(5,120)</u>	<u>1,720,367</u>	<u>(1,427,128)</u>
Total accumulated depreciation	<u>(39,752,844)</u>	<u>(1,582,556)</u>	<u>2,709,118</u>	<u>(38,626,282)</u>
Capital assets, net	<u>\$123,933,789</u>	<u>\$ (495,702)</u>	<u>\$ (816,513)</u>	<u>\$122,621,574</u>

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS

As of June 30, 2021 and 2020, debt borrowings were as follows:

	<u>2021</u>	<u>2020</u>
Tulare Local Health Care District 2020 General Obligation Bonds; interest at 4.0% due semiannually; principal due in annual amounts ranging from \$2,655,000 on August 1, 2020 to \$6,185,000 due on August 1, 2039; collateralized by property taxes:	\$ 68,430,000	\$ 71,085,000
Tulare Local Health Care District Refunding Revenue Bonds, Series A - \$11,964,000 and Series B - \$8,775,000; interest at 3.53% (Series A) and interest at 4.59% (Series B) due semiannually; principal due in annual amounts ranging from \$413,000 on September 1, 2021 to \$1,351,000 due on September 1, 2043; collateralized by District revenues;	20,739,000	20,739,000
Line of credit with Adventist Health; interest is charged at the WSJ prime less .5% with combined repayments as defined within this footnote; collateralized by specified District assets:	<u>2,435,163</u>	<u>2,683,354</u>
	91,604,163	94,507,354
Less current maturities of debt borrowings	(2,624,038)	(5,338,354)
Plus unamortized bond premium on 2020 general obligation bonds	<u>12,076,330</u>	<u>12,702,541</u>
	<u>\$101,056,455</u>	<u>\$101,871,541</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$2,624,038 due in 2022; \$2,977,038 due in 2023; \$2,122,086 due in 2024; \$2,274,000 in 2025 and \$2,489,000 in 2026.

Bond Transactions: In February, 2020, the District refinanced both the Tulare Local Health Care District 2005, Series A and Series B General Obligation Bonds with the new Tulare Local Health Care District 2020 General Obligation Bonds. The old bonds were placed in a refunding escrow deposit in the amount of \$82,730,015. The new bonds had a par amount of \$71,085,000 and a premium of \$12,923,454. Debt service will administered by the County of Tulare and funded by property taxes within the District.

In June, 2020, the District refinanced both the Tulare Local Health Care District Refunding Revenue Bonds, Series 2007 and the line of credit with the City of Tulare with the new Tulare Local Health Care District Refunding Revenue Bonds, Series A - \$11,964,000 and Series B - \$8,775,000. The City received a payment of \$7,981,059 and the old bonds were placed in a refunding escrow deposit in the amount of \$12,940,176. The new bonds will be repaid by District revenue sources.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS (continued)

Adventist Health Line of Credit: In August 2018, the District entered into several agreements with Adventist Health for a variety of reasons. One of the agreements was a Debtor-In-Possession line of credit agreement (LOC) whereby the District was granted up to \$10 million by Adventist Health in order to aid in the reopening of the Hospital. Interest on the LOC is adjusted based on the Wall Street Journal prime rate less 50 basis points and compounded annually. A total of \$9,627,894 was initially drawn and then subsequently reduced by the purchase of property by Adventist from the District in the amount of \$6,467,812, leaving a balance due of \$3,160,082 as of June 30, 2019. The District continues to borrow on this LOC to fund capital improvements for the Hospital facilities. Balances owed on the LOC as of June 30, 2021 and 2020 were \$2,435,163 and \$2,683,354, respectively.

NOTE I - TULARE HOSPITAL FOUNDATION

The Tulare Hospital Foundation (the Foundation), operates as a non-profit public benefit corporation under the Internal Revenue Code Section 501 (c) (3) for the charitable purpose of procuring and extending financial aid and other resources toward the provision of Hospital and related services to the City of Tulare and outlying areas. The Foundation's funds represent the Foundation's unrestricted resources, which, upon request by the District, may be donated to the District in amounts and at times determined by the Foundation Board of Trustees, in its sole discretion. Donated funds to the District may be restricted by the Foundation for specific purposes such as discrete capital improvement projects or other District projects in furtherance of its charter. The Foundation is not considered to be a component unit of the District as such component units are defined by accounting regulatory criteria. As such, the financial activities of the Foundation are not required to be combined with the District overall financial results for the years ended June 30, 2021 and 2020.

NOTE J - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2021, the District had recorded \$110,939,786 as construction-in-progress representing cost capitalized, mainly for the "Tower" project. Several years ago the District began construction on this project. This project was funded through general obligation bonds and funding from these bonds has since been exhausted yet the project remains uncompleted. The District plans to seek future additional funding in order to complete the project, however it is undetermined as to when that funding will be secured and construction will continue towards completion. As a result of the delays in construction, no interest has been capitalized into the project since funding ran out and major construction was suspended. Capitalization of interest will resume once construction on the project begins again.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE J - COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2021 and 2020, were \$99,529 and \$82,125, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2021, that have initial or remaining lease terms in excess of one year are not considered material.

Health Care Reform: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE K - BANKRUPTCY

Bankruptcy: On September 30, 2017 the District filed a Chapter 9 proceeding in the United States Bankruptcy Court for the Eastern District of California. Following extensive efforts by the District, its consultants, and counsel over the subsequent 19 months, the Court issued its August 16, 2019 Order confirming the District's Plan of Adjustment (the Plan). The Plan became effective October 17, 2019, and the District commenced with its implementation including execution of a Bond Supplement relating to the District's general obligation and revenue bonds.

As a result of the acceptance of the Plan by the Court, the financial impact of the terms of the Plan have been incorporated into the financial statements as of June 30, 2021 and 2020. Unsecured creditor claims (class 8) were set at \$5 million to be paid starting in 2025 and continuing through 2029. The repayments will be \$500,000 in 2025, \$750,000 in 2026, \$1,000,000 in 2027, \$1,250,000 in 2028 and \$1,500,000 in 2029. Other claims related to the Plan are recorded as current liabilities. The financial impact of the Plan, plus other settlement proceedings, has allowed the District to record a forgiveness of debt within the statement of revenues, expenses and changes in net position in the amount of \$3,102,424 and \$1,407,412 for the years ended June 30, 2021 and 2020, respectively.

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE L - INVESTMENTS

The District’s investment balances and average maturities were as follows at June 30, 2021 and 2020:

<i>As of June 30, 2021</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Short term investments	\$ 3,586,756	\$ 3,586,756		
Local agency investment fund	<u>4,304,724</u>	<u>4,304,724</u>		
Total investments	<u>\$ 7,891,480</u>	<u>\$ 7,891,480</u>		

<i>As of June 30, 2020</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Short term investments	\$ 4,910,400	\$ 4,910,400		
Total investments	<u>\$ 4,910,400</u>	<u>\$ 4,910,400</u>		

The District’s investments are reported at fair value as previously discussed. The District’s investment policy allows for various forms of investments generally set to mature within a few months to others over several years.

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

Credit Risk: Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District’s investments are generally held by broker-dealers or bank’s trust departments used by the District to purchase securities.

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE M - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through November 16, 2021, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

JWT & Associates, LLP

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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

The Board of Directors
Tulare Local Health Care District
Tulare, 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 of the Tulare Local Health Care District (the District) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 16, 2021.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* 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 those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

JW7 & Associates, LLP

Fresno, California
November 16, 2021