

Audited Financial Statements
TULARE LOCAL
HEALTH CARE DISTRICT
June 30, 2020

Audited Financial Statements

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2020

Audited Financial Statements

Management’s Discussion and Analysis	1
Report of Independent Auditors	4
Statements of Net Position	6
Statements of Revenues, Expenses, and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	10

Management's Discussion and Analysis

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2020

Overview

Management of the Tulare Local Healthcare District (“District”) has prepared this annual discussion and analysis in order to provide an overview of the District’s performance for the fiscal year ended June 30, 2020 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials 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 carries out its Chapter 9 Bankruptcy Plan of Adjustment (the “Plan”) and works closely with its largest lessee, Adventist Health Tulare. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2020 and accompanying notes to the financial statements to enhance one’s understanding of the District’s recent financial performance.

Background

Tulare Regional Medical Center (“Hospital”) was 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, and operated as such until March 15, 2019, at which time Adventist Health Tulare, a private, not-for-profit corporation, assumed occupancy and operational control of the Hospital under the terms of a 5.5 year lease with the District. During FY19, the District secured two lines of credit to re-open the Hospital and assist with ongoing operational expenses: (1) a \$10 million operating line of credit from Adventist Health to be used for re-opening the Hospital and expenditures related to fixed asset costs; and (2) a \$9 million line of credit from City of Tulare to be used for ongoing business operations and the funding of certain bankruptcy and legal claims payments. As of June 30, 2020, the Adventist Health line of credit was \$2,771,677, a reduction of \$388,405 over the year. The net reduction includes payments and additional draws for construction projects.

The District’s Chapter 9 Bankruptcy Plan became effective October 17, 2019, when the District emerged from Bankruptcy.

Key and Financial Activities for FYE June 30, 2020

1. The District sold three Cherry Street properties, the Earlimart clinic building and equipment, and Mineral King Lab business, inventory and equipment.
2. The District refinanced its General Obligation Bonds and Revenue Bonds, generating a savings of \$54 million for taxpayers, and paid off the City of Tulare line of credit.
3. All bankruptcy preference recovery litigations were resolved except for two claims. The District has resolved all but five unsecured claim objections.

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

4. The District continued to improve its real property assets and in FY20, added \$1,079,324 in construction in progress projects, including HVAC replacement and various seismic compliance efforts.
5. A Tower Funds Committee was established to recommend Board action related to hiring a tower funding strategy consultant in order to begin funding efforts to complete the tower construction.
6. Evolutions Wellness and Fitness Center was closed on March 19th by California Governor executive order #N-33-20 in response to COVID-19 and opened again for a brief period before the fiscal year ended.
7. The District secured additional lease agreements with Adventist Health in the yearly amount of \$47,114 for properties used for hospital ancillary services.

All of the financial matters described previously, along with the resultant impact of the District's ongoing execution of its Chapter 9 Plan form the basis of the FYE June 30, 2020 audited financial statements.

Future Initiatives

In support of its effort to develop a short term and long term strategic vision, the District has or does:

1. Continue to serve as landlord to Adventist Health Tulare, in addition to managing various other property rentals and leases.
2. Hired a business/asset development consultant to review all District properties not currently leased for best sale/use in order to explore the provision of hospital ancillary or other healthcare provider services.
3. Hired a tower funding strategy consultant based on the recommendations of the District's advisory Tower Funds Committee. The strategy consultant will work with District staff, the Tower Construction Committee and the Tulare Hospital Foundation to develop feasibility studies to determine the tower funding needs and potential funding sources.
4. Established a Tower Construction Committee to facilitate efforts to complete the construction of the tower. This particular Committee will work closely with the tower funding strategy consultant, the Board and District staff to complete the tower construction project in a timely and efficient manner. Specifically, the Committee will review, assess, and recommend Board action with respect to: (i) inspection of the tower and determination of its present condition; (ii) review of the status of the project; (iii) determination of the steps needed, regulatory and legal requirements, realistic timeline and estimation of total cost for completion of the project; and, (iv) determination of need for, and identification through an RFP process, of potential vendors, contractors, and consultants to assist with the project.

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

5. Continue to develop a transition plan to transfer control of Evolutions Wellness and Fitness Center ("Evolutions") from EVO Management Company LLC ("EVO") in accordance with the terms of a lease already in place between the District and EVO. Transition is necessarily delayed while EVO finalizes required documentation related to CARES Act funding it has received. In the meantime, the District is undertaking early payment of preexisting debt and restructuring of facilities operations related to Evolutions Plaza (in which Evolutions is located) in order to provide financial support to Evolutions during its COVID-19 related mandatory cessation of operations. The District expects Evolutions to run at a deficit until it re-opens and membership numbers are returned to pre-COVID levels.

6. Sold an undeveloped 4 acre parcel of land, the proceeds of which sale will be realized in FY21.

With regards to its Chapter 9 Bankruptcy Plan, the District continues to pursue recoveries on two preferential transfers and litigate to conclusion or settlement five claim objections. The first distribution of The Plan will be in FY2025.

A civil suit continues to be litigated against the District's formal 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, 2020 and 2019, 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, 2020 and 2019, 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.

JW7 & Associates, LLP

Fresno, California
December 14, 2020

Statements of Net Position

TULARE LOCAL HEALTH CARE DISTRICT

	June 30	
Assets	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 3,434,785	\$ 2,799,192
Assets limited as to use available for current debt service	3,655,256	5,292,273
Patient accounts receivable, net of allowances	62,654	161,636
Other receivables	1,345,410	312,739
Estimated third party payor settlements and other receivables	267,168	152,402
Prepaid expenses and deposits	<u>77,850</u>	<u>164,852</u>
Total current assets	8,843,123	8,883,094
Assets limited as to use	12,519,782	9,789,435
Capital assets, net of accumulated depreciation	<u>122,621,574</u>	<u>123,933,789</u>
Total assets	143,984,479	142,606,318
Deferred outflows of resources	<u>80,922</u>	<u>198,372</u>
	<u>\$144,065,401</u>	<u>\$142,804,690</u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 5,338,354	\$ 4,131,807
Accounts payable and accrued expenses	6,267,253	9,902,948
Accrued payroll and related liabilities	<u>10,608</u>	<u>16,256</u>
Total current liabilities	11,616,215	14,051,011
Long-term bankruptcy payables	5,000,000	5,000,000
Debt borrowings, net of current maturities	<u>101,871,541</u>	<u>101,333,274</u>
Total liabilities	118,487,756	120,384,285
Net position		
Invested in capital assets, net of related debt	30,797,574	27,428,789
Restricted, by bond indenture agreements for debt service	16,175,038	15,081,708
Unrestricted (deficit)	<u>(21,394,967)</u>	<u>(20,090,092)</u>
Total net position	<u>25,577,645</u>	<u>22,420,405</u>
	<u>\$144,065,401</u>	<u>\$142,804,690</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>2020</u>	<u>2019</u>
Operating revenues		
Net patient service revenue	\$ 1,628,554	\$ 8,439,628
Other operating revenue	<u>2,382,614</u>	<u>983,481</u>
Total operating revenues	4,011,168	9,423,109
Operating expenses		
Salaries and wages	252,380	7,110,667
Employee benefits	57,342	2,677,425
Professional fees	1,628,031	6,557,317
Supplies	19,167	2,227,121
Purchased services	548,063	7,304,872
Repairs and maintenance	35,193	972,451
Utilities and phone	117,252	1,206,582
Building and equipment rent	82,125	476,303
Insurance	491,124	1,363,477
Depreciation and amortization	1,700,007	2,540,767
Other operating expenses	<u>55,173</u>	<u>828,106</u>
Total operating expenses	<u>4,985,857</u>	<u>33,265,088</u>
Operating income (loss)	(974,689)	(23,841,979)
Nonoperating revenues (expenses)		
District tax revenues	10,525,655	11,314,942
Investment gains and (losses), net	312,203	332,834
Interest expense	(6,442,619)	(7,296,785)
Grants and contributions		10,427,083
Gain (loss) on sale of assets and refinancing	(1,670,722)	(6,742,911)
Forgiveness of debt through bankruptcy proceedings	<u>1,407,412</u>	<u>29,882,965</u>
Total nonoperating revenues (expenses), net	<u>4,131,929</u>	<u>37,918,128</u>
Net increase (decrease) in net position	3,157,240	14,076,149
Net position at beginning of the year	<u>22,420,405</u>	<u>8,344,256</u>
Net position at end of the year	<u>\$ 25,577,645</u>	<u>\$ 22,420,405</u>

See accompanying notes and auditor's report

Statements of Cash Flows

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$ 1,612,770	\$ 7,133,675
Cash received from operations, other than patient services	1,349,943	1,017,534
Cash payments to suppliers and contractors	(6,524,821)	(21,536,985)
Cash payments to employees and benefit programs	<u>(315,370)</u>	<u>(9,881,906)</u>
Net cash (used in) operating activities	(3,877,478)	(23,267,682)
Cash flows from noncapital financing activities:		
District tax revenues	2,089,944	1,993,612
Grants and contributions	<u> </u>	<u>10,427,083</u>
Net cash provided by noncapital financing activities	2,089,944	12,420,695
Cash flows from capital financing activities:		
District tax revenues related to debt service	8,435,711	9,321,330
Net changes in capital assets and other changes	(533,652)	3,186,176
Proceeds from debt borrowings	107,047,455	15,627,894
Principal payments on debt borrowings	(105,302,641)	(7,367,813)
Interest payments on debt borrowings	<u>(6,442,619)</u>	<u>(7,296,785)</u>
Net cash provided by capital financing activities	3,204,254	13,471,433
Cash flows from investing activities:		
Net (purchase) or sale of assets limited as to use	(1,093,330)	(3,128,176)
Investment gains and (losses), net	<u>312,203</u>	<u>332,834</u>
Net cash (used in) investing activities	<u>(781,127)</u>	<u>(2,795,342)</u>
Net increase (decrease) in cash and cash equivalents	635,593	(170,896)
Cash and cash equivalents at beginning of year	<u>2,799,192</u>	<u>2,970,088</u>
Cash and cash equivalents at end of year	<u>\$ 3,434,785</u>	<u>\$ 2,799,192</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (974,689)	\$ (23,841,979)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,700,007	2,540,767
Provision for bad debts and other		357,753
Changes in operating assets, liabilities and other:		
Patient accounts receivables	98,982	642,456
Other receivables	(1,032,671)	34,053
Inventories		387,635
Prepaid expenses and deposits	87,002	284,892
Accounts payable and accrued expenses	(3,635,695)	(6,273,283)
Bankruptcy payables		5,000,000
Accrued payroll and related liabilities	(5,648)	(93,814)
Estimated third party payor settlements	(114,766)	(2,306,162)
Net cash (used in) operating activities	<u>\$ (3,877,478)</u>	<u>\$ (23,267,682)</u>

See accompanying notes and auditor's report

June 30, 2020

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.

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, 2020, 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 \$117,451 and \$117,451 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 are \$6,892 and \$4,355, 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.

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Charity Care: The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

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. For the year ended June 30, 2019, Adventist Health contributed \$10.4 million for the operations of the Hospital during the Adventist Health's management period. There were no material grants and contributions for June 30, 2020.

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, 2020 and 2019, 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 B - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2020 and 2019, the District had operating deposits invested in various financial institutions in the form of cash and cash equivalents amounted to \$3,463,493 and \$2,797,776. 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 - NET PATIENT SERVICE REVENUES

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary accordingly to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. The District is subject to cost reimbursement methodologies for the rural health clinics. Other reimbursement matters are also subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2020, certain open settlements are subject to bankruptcy proceedings.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal patients are 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 continue to be paid on pre-determined charge screens. Medi-Cal managed care services are paid on pre-determined rates and are not subject to cost reimbursement. At June 30, 2020, certain open settlements are subject to bankruptcy proceedings.

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

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE C - NET PATIENT SERVICE REVENUES (continued)

Net patient service revenues summarized by payor are as follows:

	<u>2020</u>	<u>2019</u>
Daily hospital acute care routine services		\$ 5,038,731
Inpatient ancillary services		21,056,777
Outpatient services	\$ 585,489	<u>12,616,502</u>
Gross patient service revenues	585,489	38,712,010
Net supplementals less deductions from revenues	<u>1,043,065</u>	<u>(30,272,382)</u>
Net patient service revenues	<u>\$ 1,628,554</u>	<u>\$ 8,439,628</u>

Medicare and Medi-Cal revenue accounts for about 48% of the District’s net patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change by a material amount in the near term.

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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 45,207	\$ 516,689
Medi-Cal	83,415	2,049,969
Other third party payors	35,616	667,252
Self pay and other	<u>104,438</u>	<u>9,284,126</u>
Gross patient accounts receivable	268,676	12,518,036
Less allowances for contractual adjustments and bad debts	<u>(206,022)</u>	<u>(12,356,400)</u>
Net patient accounts receivable	<u>\$ 62,654</u>	<u>\$ 161,636</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, 2020 and 2019.

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2020 and 2019 were comprised of the following:

	<u>2020</u>	<u>2019</u>
Tulare Local County property taxes	\$ 101,122	\$ 82,162
Other various receivables, net	<u>1,244,288</u>	<u>230,577</u>
	<u>\$ 1,345,410</u>	<u>\$ 312,739</u>

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2020 and 2019 were comprised of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents held for general obligation bond debt service	\$ 16,133,535	\$ 13,105,296
Cash and cash equivalents and debt securities held under revenue bond indenture agreements for debt service requirements	<u>41,503</u>	<u>1,976,412</u>
	16,175,038	15,081,708
Less amounts available for current obligations	<u>(3,655,256)</u>	<u>(5,292,273)</u>
	<u>\$ 12,519,782</u>	<u>\$ 9,789,435</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, 2020 and 2019 were comprised of the following:

	<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	(35,354,684)	(1,517,166)	980,117	(35,891,733)
Equipment	<u>(3,242,375)</u>	<u>(5,120)</u>	<u>1,720,367</u>	<u>(1,527,128)</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>
	<u>Balance at June 30, 2018</u>	<u>Transfers & Additions</u>	<u>Sales & Retirements</u>	<u>Balance at June 30, 2019</u>
Land and land improvements	\$ 3,301,871	\$ 271,772		\$ 3,573,643
Buildings and improvements	46,242,080	679,890	\$ (1,221,476)	45,700,494
Equipment	40,759,576		(37,551,200)	3,208,376
Construction-in-progress	<u>115,579,153</u>	<u>1,404,297</u>	<u>(5,779,330)</u>	<u>111,204,120</u>
Totals at historical cost	205,882,680	2,355,959	(44,552,006)	163,686,633
Less accumulated depreciation for:				
Land and land improvements	(960,654)	(53,545)	(141,586)	(1,155,785)
Buildings and improvements	(34,119,661)	(1,644,128)	409,105	(35,354,684)
Equipment	<u>(34,515,542)</u>	<u>(725,644)</u>	<u>31,998,811</u>	<u>(3,242,375)</u>
Total accumulated depreciation	<u>(69,595,857)</u>	<u>(2,423,317)</u>	<u>32,266,330</u>	<u>(39,752,844)</u>
Capital assets, net	<u>\$136,286,823</u>	<u>\$ (67,358)</u>	<u>\$ (12,285,676)</u>	<u>\$123,933,789</u>

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS

As of June 30, 2020 and 2019, debt borrowings were as follows:

	<u>2020</u>	<u>2019</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:	\$ 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	
Tulare Local Health Care District 2005, Series A General Obligation Bonds; refinanced during fiscal year 2020:		\$ 14,530,000
Tulare Local Health Care District 2005, Series B General Obligation Bonds; refinanced during fiscal year 2020:		68,325,000
Tulare Local Health Care District Refunding Revenue Bonds, Series 2007; refinanced during fiscal year 2020:		13,650,000
Line of credit with the City of Tulare; interest charged at 6% with combined repayments as defined within this footnote; paid in full during the fiscal year 2020:		5,800,000
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>2,683,354</u>	<u>3,160,081</u>
	94,507,354	105,465,081
Less current maturities of debt borrowings	(5,338,354)	(4,131,807)
Plus unamortized bond premium on 2020 general obligation bonds	<u>12,702,541</u>	<u>-0-</u>
	<u>\$101,871,541</u>	<u>\$101,333,274</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$5,338,354 due in 2021; \$1,438,000 due in 2022; \$1,791,000 due in 2023; \$2,059,000 in 2024 and \$2,274,000 in 2025.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS (continued)

City of Tulare Line of Credit: In February 2019, the District obtained a \$9 million line of credit (LOC) for five years from the City of Tulare (the City) in order to assist the District's ongoing business operations and funding for legal expenses and bankruptcy claims. As of June 30, 2019, the District has borrowed \$5.8 million on this LOC and continued draws through June, 2020 when the balance of both interest and principal peaked at \$7,981,059. Shortly after that the loan with the City of Tulare was repaid in full with the Tulare Local Health Care District Refunding Revenue Bonds, Series A - \$11,964,000 and Series B - \$8,775,000. The line of credit remains open. The balance at June 30, 2020 is -0-. The District is in compliance with the terms of the line of credit.

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, plus accrued interest payable in the amount of \$264,118. Repayment on this LOC began during the 2020 fiscal year and as of June 30, 2020, the balance of both principal and interest is \$2,771,677. Repayments will continue to be made from the operating lease payments in the lease agreement between the two parties, Adventist Health and the District. These lease payments began on October 1, 2019 whereas the first 12 months of lease payments were applied towards the outstanding interest and principal. Starting in the 13th month, half of the monthly lease payments will be applied towards the outstanding interest and principal, with the other half of the lease payments being made available to the District for their use.

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 I - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2020, the District had recorded \$111,204,120 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.

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, 2020 and 2019, were \$82,125 and \$476,303, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2020, that have initial or remaining lease terms in excess of one year are not considered material.

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management believes the District is in compliance with HIPAA as of June 30, 2020 and 2019.

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.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE J - 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, 2020 and 2019.

NOTE K - INVESTMENTS

The District’s investment balances and average maturities were as follows at June 30, 2020 and 2019:

<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		
U. S. government obligations	<u>-0-</u>	<u>-0-</u>		
Total investments	<u>\$ 4,910,400</u>	<u>\$ 4,910,400</u>		

<i>As of June 30, 2019</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	\$ 3,529,180	\$ 3,529,180		
U. S. government obligations	<u>1,237,144</u>	<u>1,237,144</u>		
Total investments	<u>\$ 4,766,324</u>	<u>\$ 4,766,324</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. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE K - INVESTMENTS (continued)

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.

NOTE L - 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 has 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, 2020 and 2019. 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 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 \$1,407,412 and \$29,882,965 for the years ended June 30, 2020 and 2019, respectively.

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 December 14, 2020, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.