

Audited Financial Statements
TULARE LOCAL
HEALTH CARE DISTRICT
June 30, 2019

Audited Financial Statements

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2019

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Management's Discussion and Analysis

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2019

The management of the Tulare Local Health Care District (the 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, 2019 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 on the District's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2019 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Hospital Reopening and Change in Ownership

In the prior year, the District filed for Chapter 9 Bankruptcy protection on September 30, 2017. Subsequent to that date, the District, which owns Tulare Regional Medical Center (the Hospital), closed hospital operations on October 29, 2017. After declaring bankruptcy, the District contracted with Wipfli/HFS Consultants (Wipfli) to provide overall consultative services to address the District's needs and to work towards reopening the Hospital. Wipfli began working with the District in October 2017, and eventually took control and assumed financial management of the District on November 27, 2017. After several intense months of reviewing options, the District identified a "partner" who could provide financial support along with expertise and experience in operating acute care hospitals. The partner chosen by the District was Adventist Health (Adventist), and starting in July 2018, Adventist began the task of reopening the Hospital operations. As a result, the Hospital reopened on October 15, 2018 under the management of Adventist.

Adventist then operated the Hospital for the District until March 15, 2019, at which time Adventist Health - Tulare, a new not-for-profit corporation, assumed full and complete operations of the Hospital by the signing of a 5 and ½ year lease of the Hospital with the District, thus enacting a change in the ownership of Hospital operations (CHOW). This lease was approved by a vote of the property owners within the boundaries of the District in November, 2018 by a favorable margin of over 88%.

Financial Assistance and Other

Starting in July 2018, Adventist provided a \$10 million operating line of credit to the District in order to prepare for the Hospital reopening. Over \$9.6 million of the available line was advanced for this purpose. Effective March 15, 2019, the balance on the line of credit was reduced to approximately \$3.2 million as a result of CHOW financial transactions. This reduction was a result of Adventist purchasing from the District substantially all of the Hospital's major moveable equipment, certain medical and pharmaceutical supplies, prepaid expenses, and various other inventories.

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

In February 2019, the District also obtained a \$9 million line of credit for 5 years from the City of Tulare (the City) in order to assist the District's ongoing business operations, along with funding certain bankruptcy and legal claims. As of June 30, 2019, the amount borrowed from the City was \$5.8 million, with the anticipation that the District would need to draw the remainder of the entire \$9 million during the fiscal year ending June 30, 2020. As of the date of these financial statements, the District is in compliance with all debt borrowings in accordance with current debt service requirements.

The District's Chapter 9 Plan of Adjustment (the Plan) was prepared during the Spring of 2019 and was submitted to the court in May 2019. Subsequent to June 30, 2019, the entry of the confirmation order of the Plan was entered on August 16, 2019, and the effective date of the Plan was October 16, 2019.

Throughout the course of the management period from October 15, 2018 until March 14, 2019 (pre-CHOW period), Adventist contracted with the District to provide various financial, accounting, and I/T services necessary to operate the Hospital. This practice was extended via a transitional services agreement between the District and Adventist, commencing March 15, 2019, which will remain in place for at least one year. Additionally, the District has hired its own Chief Executive Officer (CEO) and Executive Assistant in May 2019 and June 2019, respectively. The new CEO is charged with managing the overall business and management operations of the District.

The District has also developed its fiscal year 2020 operating and cash flow budget, which was approved in August 2019. The foundation of this budget is based on the first year's projections that are included in the Plan's 10-year financial projections.

Recap of Financial Activities for the Year

The financial statements for the year were significantly impacted by several material factors as follows:

- 1) Drawing down \$9.6 million from the aforementioned \$10 million line of credit from Adventist to the District in order to re-open the Hospital;
- 2) Advancement of \$5.8 million of the \$9 million line of credit from the City to assist funding of administrative expenses and certain other legal obligations necessary to keep the District operational and moving forward with the Plan;
- 3) Receipt of \$2 million of property tax revenues from the County of Tulare;
- 4) Receipt of \$3.1 million of supplemental funding from various State of California administered programs that are available to hospitals which have historically served a disproportionate number of indigent patients;
- 5) \$1.3 million collections of the District's outstanding patient accounts receivable from services provided prior to October 29, 2017, the day of the close of Hospital operations;

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

6) Adventist's willingness to be responsible for all financial operations of the Hospital during the Pre-CHOW period of October 15, 2018 through March 14, 2019. This provided a contribution of over \$10.4 million for the day-to-day operations of the Hospital during that period.

These financial matters as outlined, along with the resultant impact of the confirmation of the Plan, have been included in the June 30, 2019 audited financial statements. The supplemental schedules section of these statements illustrates District operations compared to Hospital operations covering the full 12 months.

Also included in the supplemental schedules section is a utilization analysis. This reflects a significant story, as the District has undertaken the task to reopen hospital services to the residents of the surrounding areas, along with establishing a comprehensive Plan to resurrect itself from financial ruin.

Future Initiatives

After the CHOW was completed, Adventist Health - Tulare took full responsibility for operating the Hospital. Subsequent to the CHOW, elective surgeries have been increasing and the obstetrical services saw deliveries of the first babies in August 2019. (See Utilization Analysis in the Supplemental Schedules section).

The District will continue to serve as landlord to Adventist Health - Tulare and will oversee the Hospital lease between the two parties. The District has hired appropriate staff necessary to carry out its business operations, oversee litigation, administer the Plan's adjustments, oversee the management contract of its Evolutions Health Club, along with managing various property rentals and leases owned by the District.

The District is also exploring opportunities to re-finance its outstanding bonds, along with any other debt restructuring that may be favorable to the District and its property owners. The District also anticipates selling surplus properties in order to meet the needs of the Plan's obligations. The District and Adventist Health - Tulare will also continue to work together on the development of future capital building improvements and repairs beneficial to the overall Hospital operations.

Final Thoughts

The past two years have been very challenging, yet rewarding for the District. The District's Board of Directors, Wipfli, Adventist Health, various legal counsel, District employees, the City, community members, medical staff, the Tulare Hospital Foundation, and numerous others, have all supported and pursued the dream to re-open the Hospital and position the District for the future. There have been countless business and operational decisions, financial transactions, legal settlements, and strategic planning efforts to get to this point. The dedication, efforts, and support of the entire "community" mentioned above was remarkable and will forever be appreciated by those who need and seek health care services from the District and Adventist Health - Tulare.

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, 2019 and 2018, 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 has 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, 2019 and 2018, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements on the utilization analysis and the combining statement of revenues, expenses and changes in net position are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

QW7 & Associates, LLP

Fresno, California
November 14, 2019

Statements of Net Position

TULARE LOCAL HEALTH CARE DISTRICT

	June 30	
	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,799,192	\$ 2,970,088
Assets limited as to use available for current debt service	5,292,273	4,504,186
Patient accounts receivable, net of allowances	161,636	1,161,845
Other receivables	312,739	346,792
Estimated third party payor settlements and other receivables	152,402	3,770,728
Inventories		387,635
Prepaid expenses and deposits	<u>164,852</u>	<u>449,744</u>
Total current assets	8,883,094	13,591,018
Assets limited as to use	9,789,435	7,449,346
Capital assets, net of accumulated depreciation	<u>123,933,789</u>	<u>136,286,823</u>
Total assets	142,606,318	157,327,187
Deferred outflows of resources	<u>198,372</u>	<u>315,823</u>
	<u>\$142,804,690</u>	<u>\$157,643,010</u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 4,131,807	\$ 1,885,000
Accounts payable and accrued expenses	9,902,948	46,059,196
Accrued payroll and related liabilities	16,256	110,070
Estimated third party payor settlements and other liabilities		<u>5,924,488</u>
Total current liabilities	14,051,011	53,978,754
Long-term bankruptcy payables	5,000,000	
Debt borrowings, net of current maturities	<u>101,333,274</u>	<u>95,320,000</u>
Total liabilities	120,384,285	149,298,754
Net position		
Invested in capital assets, net of related debt	27,428,789	38,987,822
Restricted, by bond indenture agreements for debt service	15,081,708	11,953,532
Unrestricted (deficit)	<u>(20,090,092)</u>	<u>(42,597,098)</u>
Total net position	<u>22,420,405</u>	<u>8,344,256</u>
	<u>\$142,804,690</u>	<u>\$157,643,010</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>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue	\$ 8,439,628	\$ 12,158,299
Other operating revenue	<u>983,481</u>	<u>2,091,433</u>
Total operating revenues	9,423,109	14,249,732
Operating expenses		
Salaries and wages	7,110,667	1,532,445
Employee benefits	2,677,425	376,663
Professional fees	6,557,317	9,288,868
Supplies	2,227,121	3,019,596
Purchased services	7,304,872	20,254,015
Repairs and maintenance	972,451	284,243
Utilities and phone	1,206,582	1,259,004
Building and equipment rent	476,303	501,662
Insurance	1,363,477	1,046,816
Depreciation and amortization	2,540,767	3,381,815
Other operating expenses	<u>828,106</u>	<u>1,513,907</u>
Total operating expenses	<u>33,265,088</u>	<u>42,459,034</u>
Operating income (loss)	(23,841,979)	(28,209,302)
Nonoperating revenues (expenses)		
District tax revenues	11,314,942	9,270,758
Investment gains and (losses), net	332,834	80,127
Interest expense	(7,296,785)	(6,781,466)
Grants and contributions	10,427,083	
Gain (loss) on sale of assets	(6,742,911)	
Forgiveness of debt through bankruptcy proceedings	<u>29,882,965</u>	
Total nonoperating revenues (expenses), net	<u>37,918,128</u>	<u>2,569,419</u>
Net increase (decrease) in net position	14,076,149	(25,639,883)
Net position at beginning of the year	<u>8,344,256</u>	<u>33,984,139</u>
Net position at end of the year	<u>\$ 22,420,405</u>	<u>\$ 8,344,256</u>

See accompanying notes and auditor's report

Statements of Cash Flows

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$ 7,133,675	\$ 20,260,863
Cash received from operations, other than patient services	1,017,534	2,087,478
Cash payments to suppliers and contractors	(21,536,985)	(22,522,515)
Cash payments to employees and benefit programs	<u>(9,881,906)</u>	<u>(1,799,038)</u>
Net cash (used in) operating activities	(23,267,682)	(1,973,212)
Cash flows from noncapital financing activities:		
District tax revenues	1,993,612	1,889,588
Grants and contributions	<u>10,427,083</u>	<u> </u>
Net cash provided by noncapital financing activities	12,420,695	1,889,588
Cash flows from capital financing activities:		
District tax revenues related to debt service	9,321,330	7,381,170
Net changes in capital assets and other changes	3,186,176	2,673,146
Proceeds from debt borrowings	15,627,894	
Principal payments on debt borrowings	(7,367,813)	(1,727,911)
Interest payments on debt borrowings	<u>(7,296,785)</u>	<u>(6,781,466)</u>
Net cash provided by (used in) capital financing activities	13,471,433	1,544,939
Cash flows from investing activities:		
Net (purchase) or sale of assets limited as to use	(3,128,176)	(659,114)
Investment gains and (losses), net	<u>332,834</u>	<u>80,127</u>
Net cash (used in) investing activities	<u>(2,795,342)</u>	<u>(578,987)</u>
Net increase (decrease) in cash and cash equivalents	(170,896)	882,328
Cash and cash equivalents at beginning of year	<u>2,970,088</u>	<u>2,087,760</u>
Cash and cash equivalents at end of year	<u>\$ 2,799,192</u>	<u>\$ 2,970,088</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (23,841,979)	\$ (28,209,302)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,540,767	3,381,815
Provision for bad debts and other	357,753	3,952,670
Changes in operating assets, liabilities and other:		
Patient accounts receivables	642,456	521,248
Other receivables	34,053	(3,955)
Inventories	387,635	773,226
Prepaid expenses and deposits	284,892	119,084
Accounts payable and accrued expenses	(6,273,283)	13,753,286
Bankruptcy payables	5,000,000	
Accrued payroll and related liabilities	(93,814)	110,070
Estimated third party payor settlements	<u>(2,306,162)</u>	<u>3,628,646</u>
Net cash (used in) operating activities	<u>\$ (23,267,682)</u>	<u>\$ (1,973,212)</u>

See accompanying notes and auditor's report

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2019

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. Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, 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.

Inventories: Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The District does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method. As of June 30, 2019, the District has no more inventories.

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, 2019, 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, 2019 and 2018, 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, 2019 and 2018 are \$4,355 and \$-0-, 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 54% 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.

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, 2019, operating revenues include revenues from exchange transactions associated with providing health care services which was the District's principal activity from October 15, 2018 (the reopening) through March 14, 2019 (the CHOW), 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, 2019 and 2018, the District had operating deposits invested in various financial institutions in the form of cash and cash equivalents amounted to \$2,797,776 and \$2,967,488. 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. Investments consist of U.S. Government securities and state and local agency funds invested in U. S. Government securities and are stated at quoted market values. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net position.

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, 2019, 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, 2019, 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>2019</u>	<u>2018</u>
Daily hospital acute care routine services	\$ 5,038,731	\$ 7,934,934
Inpatient ancillary services	21,056,777	33,159,967
Outpatient services	<u>12,616,502</u>	<u>19,868,319</u>
Gross patient service revenues	38,712,010	60,963,220
Less contractual allowances and provision for bad debts	<u>(30,272,382)</u>	<u>(48,804,921)</u>
Net patient service revenues	<u>\$ 8,439,628</u>	<u>\$ 12,158,299</u>

Medicare and Medi-Cal revenue accounts for approximately 73% of the District's net patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 516,689	\$ 4,583,138
Medi-Cal	2,049,969	9,130,855
Other third party payors	667,252	3,782,300
Self pay and other	<u>9,284,126</u>	<u>6,225,975</u>
Gross patient accounts receivable	12,518,036	23,722,268
Less allowances for contractual adjustments and bad debts	<u>(12,356,400)</u>	<u>(22,560,423)</u>
Net patient accounts receivable	<u>\$ 161,636</u>	<u>\$ 1,161,845</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, 2019 and 2018.

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2019 and 2018 were comprised of the following:

	<u>2019</u>	<u>2018</u>
Tulare Local County property taxes	\$ 82,162	\$ 77,187
Other various receivables, net	<u>230,577</u>	<u>269,605</u>
	<u>\$ 312,739</u>	<u>\$ 346,792</u>

From time-to-time, Districts may record physician income guarantee agreements to provide the physicians with a specified level of income for a period of time. As of June 30, 2019, the District has no agreements of this nature due to the transfer of the hospital operations to Adventist Health - Tulare.

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2019 and 2018 were comprised of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents held for general obligation bond debt service	\$ 13,105,296	\$ 10,481,313
Cash and cash equivalents and debt securities held under revenue bond indenture agreements for debt service requirements	<u>1,976,412</u>	<u>1,472,219</u>
	15,081,708	11,953,532
Less amounts available for current obligations	<u>(5,292,273)</u>	<u>(4,504,186)</u>
	<u>\$ 9,789,435</u>	<u>\$ 7,449,346</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, 2019 and 2018 were comprised of the following:

	<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>

	<u>Balance at June 30, 2017</u>	<u>Transfers & Additions</u>	<u>Sales & Retirements</u>	<u>Balance at June 30, 2018</u>
Land and land improvements	\$ 3,301,871			\$ 3,301,871
Buildings and improvements	46,242,080			46,242,080
Equipment	40,759,576			40,759,576
Construction-in-progress	<u>118,269,976</u>	<u> </u>	\$ (2,690,823)	<u>115,579,153</u>
Totals at historical cost	208,573,503		(2,690,823)	205,882,680
Less accumulated depreciation for:				
Land and land improvements	(929,691)	(77,156)		(960,654)
Buildings and improvements	(32,357,425)	(2,701,460)		(34,119,661)
Equipment	<u>(33,062,054)</u>	<u>(2,066,157)</u>	<u> </u>	<u>(34,515,542)</u>
Total accumulated depreciation	<u>(66,349,170)</u>	<u>(4,844,773)</u>	<u> </u>	<u>(69,595,857)</u>
Capital assets, net	<u>\$141,954,333</u>	<u>\$ (2,571,054)</u>	<u>\$ (2,690,823)</u>	<u>\$136,286,823</u>

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS

As of June 30, 2019 and 2018, debt borrowings were as follows:

	<u>2019</u>	<u>2018</u>
Tulare Local Health Care District 2005, Series A General Obligation Bonds; interest at 4.00% to 4.65% due semiannually; principal due in annual amounts ranging from \$150,000 on August 1, 2019 to \$2,000,000 on August 1, 2037; collateralized by property taxes:	\$ 14,530,000	\$ 14,655,000
Tulare Local Health Care District 2005, Series B General Obligation Bonds; interest at 6.45% to 8.00% due semiannually; principal due in annual amounts ranging from \$715,000 on August 1, 2019 to \$7,240,000 on August 1, 2039; collateralized by property taxes:	68,325,000	68,900,000
Tulare Local Health Care District Refunding Revenue Bonds, Series 2007; interest charged at 3.75% to 5.20% due semiannually; principal due in annual amounts ranging from \$1,820,000 on November 1, 2019 to \$1,210,000 on November 1, 2032; collateralized by District revenues and other property:	13,650,000	13,650,000
Line of credit with the City of Tulare; interest is charged at 6% with combined repayments as defined within this footnote; collateralized by specified District assets:	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>3,160,081</u>	
	105,465,081	97,205,000
Less current maturities of debt borrowings	<u>(4,131,807)</u>	<u>(1,885,000)</u>
	<u>\$101,333,274</u>	<u>\$ 95,320,000</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$4,131,807 due in 2020; \$3,061,825 due in 2021; \$3,479,783 due in 2022; \$5,035,000 in 2023 and \$4,146,667 in 2024.

The Series 2007 refunding revenue bonds requires that the District maintain a specified long-term debt service coverage ratio, among other covenants. As noted in the subsequent event footnote, the bankruptcy Plan altered certain events of default as outlined in a Bond Supplement dated October 16, 2019.

The interest payments for the general obligation bonds issued in 2009 were subsidized over the life of the issue by a U. S. Government stimulus program entitled "Build America Bonds" by approximately 32%, leaving the tax revenues to cover approximately 68%. These subsidies were terminated during the last quarter of fiscal year 2019.

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 it is anticipated that the District will draw the remainder of the LOC during the fiscal year 2020. Repayment terms include a fixed interest rate of 6% which are due semiannually each January 31st and July 31st. Principal repayments commence in February 2022 at an amount equal to 1/24th of the outstanding principal balance at the end of the 36th month. At the end of the 36th month, no more draws are allowed. As of June 30, 2019, the District is in compliance with the terms of the LOC.

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 will be made from the operating lease payments in the lease agreement between the two parties, Adventist Health and the District. These lease payments commence on October 1, 2019 whereas the first 12 months of lease payments will be 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. This agreement was amended on November 5, 2019 (see subsequent event footnote).

NOTE I - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2019, 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, 2019 and 2018, were \$476,303 and \$501,662, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year are not considered material.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

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, 2019 and 2018.

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 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 for the presentation of the overall financial results of the District for the years ended June 30, 2019 and 2018.

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE K - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2019 and 2018:

<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>		

<i>As of June 30, 2018</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	\$ 2,957,038	\$ 2,957,038		
U. S. government obligations	<u>1,406,007</u>	<u>1,406,007</u>		
Total investments	<u>\$ 4,363,045</u>	<u>\$ 4,363,045</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.

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.

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE K - INVESTMENTS (continued)

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.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer.

NOTE L - PENDING LITIGATION AND OTHER MATTERS

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 16, 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, 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 \$29,882,965 for the year ended June 30, 2019.

Hospital Operations: The Hospital was reopened for operations in October 2018 as a result of a combined effort of the District and Adventist Health. Adventist Health, at its own expense, managed the Hospital on behalf of the District from October 15, 2018 through March 14, 2019. Following the negotiation of a long-term arrangement with Adventist Health earlier in the 2019 fiscal year, a CHOW transpired and made effective on March 15, 2019 which then allowed Adventist Health to operate the Hospital.

In another arrangement with Adventist Health, it allowed for the leasing of the District's hospital facilities to Adventist Health under a long-term arrangement. The terms agreed upon allow Adventist Health to lease the facilities for a period of 5 and ½ years, commencing with a 6-month fixturation period followed with an annual lease amount of \$2,335,000 for the following 12 months. Annual increases begin in the 19th month based on consumer price index (CPI) inflationary factors.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE L - PENDING LITIGATION AND OTHER MATTERS (continued)

District Attorney Investigation: The Office of the District Attorney, County of Tulare is continuing to conduct an investigation into various matters involving the District's former management group and Board members. As of the date of these financial statements, it is not possible to disclose what material outcome, if any, the results of this investigation may have on the financial position of the District as of June 30, 2019.

Property and Equipment: As part the various agreements with Adventist Health, the District sold substantially all of its major moveable equipment, plus inventories and prepaid expenses to Adventist Health - Tulare on March 15, 2019. The proceeds of this purchase totaled \$6,467,812 and were used to reduce the line of credit that had previously been advanced by Adventist Health to the District to support the reopening of the Hospital.

Pending Litigation: The District has substantially settled all material claims against the District during the past year ending June 30, 2019, and these settlements have been reflected in these financial statements for the year ended June 30, 2019. The District also has pending litigation with respect to the bankruptcy proceedings which include preference and other claims, some of which have been recorded as receivables within these financial statements. After consultation with legal counsel, management estimates that any other matters existing as of June 30, 2019 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

District/Adventist Health Agreements: At a special District board meeting on August 1, 2018, the Board of Directors unanimously voted to adopt resolutions approving the following agreements between Adventist Health and the District: (1) the lease agreement; (2) the asset purchase agreement; (3) the line of credit Agreement; (4) the security agreement; (5) the rent assignments agreement; and (6) the management services agreement. During the fiscal year 2019 and subsequent, these agreements were updated, amended, and/or finalized consistent with agreed upon terms between the District and Adventist Health.

In addition to these agreements, effective March 15, 2019, a transitional services agreement was established between the District and Adventist Health which provided for various members of the District's financial services team to continue to provide certain accounting, banking, financial reporting and other business functions for Adventist Health - Tulare, for which Adventist Health will reimburse the District for the costs of these services.

Supplemental Settlement Issues: In the current fiscal year, the District received supplemental payments totaling \$1,641,561 from two separate State of California health care services supplemental programs. It is undetermined as of the date of these financial statements as to which entity (the District or Adventist Health) will ultimately end up with these monies, and in what proportion. Until such determination is made, the District has conservatively elected to record the entire amount as a liability as of the date of these financial statements.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE L - PENDING LITIGATION AND OTHER MATTERS (continued)

Legislative Audit: On October 9, 2018, the California State Auditor department (the Auditor) issued its findings of an audit conducted by its staff over the course of several months in which the Auditor reviewed the activities of the District and its oversight of the Hospital and the former managers of the Hospital, HCCA. The findings and the recommendations contained in this report are included in a publicly available report on the Auditor's website. The results of the audit, about several of which the District disagreed, did not financially affect the financial statements of the District as of June 30, 2019 and 2018. In late Spring 2019, the District, as required, provided a response to the Auditor regarding various recommendations that were included in the report.

NOTE M - NET POSITION ADJUSTMENTS

The June 30, 2017 net position has been restated to incorporate \$19,772,741 in prior period adjustments of construction-in-progress capitalized costs related to the Tower project. These errors had overstated the value of the project due to several issues involving the Tower. As a result, construction-in-progress as of June 30, 2017 and the related net position have been reduced by these adjustments.

NOTE N - SUBSEQUENT EVENTS

Change of Ownership: On March 15, 2019, Adventist Health filed its CHOW with the California Department of Public Health seeking the transfer of the District's general acute care license to Adventist Health - Tulare. Final approval of the CHOW was granted on September 24, 2019 and made effective retroactively to March 15, 2019.

Sale of Surplus Properties: Subsequent to year end, the District has either sold or is in process of selling surplus properties owned by the District. On October 1, 2019, the District entered into an agreement with Adventist Health for the sale of the District's Mineral Kings Toxicology Laboratory for \$385,000. Other properties are in process of negotiating sale agreements for vacant land and certain rental properties owned by the District.

Debt Refinancing: In September 2019, the District entered into an agreement with Wulff, Hansen & Co., a municipal advisor firm, to advise the District on the feasibility of refinancing any and/or all of the District's general obligations bonds, revenue bonds and the line of credit with the City of Tulare. It is expected that this process will be reviewed and completed in the early part of 2020.

Bond Supplement: Pursuant to the Plan, on October 16, 2019 the District and Wilmington Trust entered into a Bond Supplement agreement by which any existing defaults as to the Tulare Local Health Care Refunding Revenue Bonds, Series 2007 were cured and the District agreed to make continuing payments to Wilmington Trust.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE N - SUBSEQUENT EVENTS (continued)

Debtor-in-Possession Credit Agreement: On November 7, 2019, the Debtor-in-Possession Credit agreement was amended to address capital expenditures. The District may be financially responsible for certain necessary capital expenditures. The amendment allows the District the option to have Adventist Health fund those expenditures, at which time the funded amounts will be added to the Adventist Health principal balance of the LOC. Conversely, Adventist Health may purchase certain assets or services from the District and payment for those purchases may be in the form of a reduction in the principal balance of the LOC at the time of purchase. The amendment was necessary due to the fact that subsequent to year end, the District and Adventist Health have agreed to acquire certain capital structure improvements. Such improvements include a project to prepare the Hospital for emergency lighting requirements for NPC-2 seismic compliance, along with the re-paving of certain parking lots and other similar projects.

Other Subsequent Events: Management evaluated the effect of other subsequent events on the financial statements through November 14, 2019, the date the financial statements are issued, and determined that there are no other material subsequent events that have not been disclosed.

Supplementary Information

Utilization Analysis

TULARE LOCAL HEALTH CARE DISTRICT

	Reopening Period from October 15, 2018 <u>5-Months</u>	Closing Down Period Ended October 29, 2017 <u>4-Months</u>	Last Complete Year of Operations <u>June 30, 2017</u>
Inpatient utilization indicators			
Acute patient days	1,346	3,134	4,906
Discharges	299	849	1,083
Average length of stay	4.47	3.69	4.53
Average daily census	8.20	25.50	39.90
Case mix index (overall)	0.85	1.12	1.13
Newborn deliveries (deliveries)	0	175	221
Inpatient utilization indicators			
Inpatient cases	98	137	211
Outpatient cases	<u>7</u>	<u>365</u>	<u>459</u>
Total surgeries	105	502	670
Emergency room			
Visits	9,348	7,605	10,359
Admissions	250	528	692
Clinics			
Primary care visits	0	3,703	4,446
Specialty care visits	0	803	852

Combining Statement of Revenues, Expenses and Changes in Net Position

TULARE LOCAL HEALTH CARE DISTRICT

Year Ended June 30, 2019

	<u>District</u>	<u>Hospital</u>	<u>Eliminations</u>	<u>Combined Total</u>
Operating revenues				
Net patient service revenue	\$ 605,411	\$ 7,834,217		\$ 8,439,628
Other operating revenue	<u>978,094</u>	<u>5,387</u>		<u>983,481</u>
Total operating revenues	1,583,505	7,839,604		9,423,109
Operating expenses				
Salaries and wages	846,062	6,264,605		7,110,667
Employee benefits	246,162	2,431,263		2,677,425
Professional fees	4,848,381	1,708,936		6,557,317
Supplies	87,063	2,140,058		2,227,121
Purchased services	3,101,082	4,203,790		7,304,872
Repairs and maintenance	615,792	356,659		972,451
Utilities and phone	816,730	389,852		1,206,582
Building and equipment rent	287,288	189,015		476,303
Insurance	1,170,977	192,500		1,363,477
Depreciation and amortization	2,540,767			2,540,767
Other operating expenses	<u>283,136</u>	<u>544,970</u>		<u>828,106</u>
Total operating expenses	<u>14,843,440</u>	<u>18,421,648</u>		<u>33,265,088</u>
Operating income (loss)	(13,259,935)	(10,582,044)		(23,841,979)
Nonoperating revenues (expenses)				
District tax revenues	11,314,942			11,314,942
Investment income	118,568	214,266		332,834
Interest expense	(7,296,476)	(309)		(7,296,785)
Grants and contributions	58,996	10,368,087		10,427,083
Gain (loss) on sale of assets	(6,742,911)			(6,742,911)
Forgiveness of debt	<u>29,882,965</u>			<u>29,882,965</u>
Total nonoperating revenues	<u>27,336,084</u>	<u>10,582,044</u>		<u>37,918,128</u>
Net increase (decrease)/net position	14,076,149			14,076,149
Net position - beginning of the year	<u>8,344,256</u>			<u>8,344,256</u>
Net position - end of the year	<u>\$ 22,420,405</u>	<u>\$</u>		<u>\$ 22,420,405</u>