

# SOUTHERN INYO HEALTHCARE DISTRICT

## Special Meeting of the Board of Directors Minutes

Date: Friday, July 24, 2020

Time: 4:00 p.m.

Location: SIHD Conference Room

501 E. Locust Street

Lone Pine, CA 93545

Due to the COVID-19 state of emergency, the Board of Directors will conduct this meeting via tele-conference. A physical location will not be available to the public. You may participate in the meeting by using the call in number specified in this Notice of Meeting. If you wish to speak to an item on the agenda, please inform the Board Chair when she asks for public comment. The Board's normal rules for public comment apply: speakers are limited to 3 minutes per item. You may also email comments to [mperkins@sihd.org](mailto:mperkins@sihd.org) prior to the start of the meeting, and your comment(s) will be distributed to the directors at the meeting.

If you need special assistance to participate in the meeting, please contact Maritza Perkins at 760-876-2210, and the District will attempt to accommodate your need.

**CALL-IN #**

**310-747-3280**

**Access 4506953**

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### Minutes

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#### **PRESENT (via phone)**

Jaque Hickman, President

Charles Carson, Vice President

Bruce Branson, Treasurer

#### **ABSENT**

Carma Roper, Secretary

Mark Lacey, Director

#### **OTHERS**

Peter Spiers, CEO

Maritza Perkins, Executive Assistant

Chester Beedle, Financial Consultant (via phone)

Rick Jackson, Auditor (via phone)

Scott Nave, Legal Counsel (via phone)

#### **I. CALL TO ORDER**

The July 24, 2020 meeting was called to order at 4:05 pm.

#### **Roll Call-**

Charles Carson Present

#### **Board of Directors:**

Jaqueline Hickman  
President

Charles Carson  
Vice President

Carma Roper  
Secretary

Bruce Branson  
Treasurer

Mark Lacey  
Director

Bruce Branson Present  
Jaque Hickman Present

Treasurer Branson moved to approve the July 24, 2020 Special Meeting agenda. Vice President Carson seconded. All Approved.

**Roll call-**

Jaque Hickman AYE  
Bruce Branson AYE  
Charles Carson AYE

**II. BUSINESS ITEMS**

**A. Approval of FYE 2019 SIHD Audited Financial Statements**

Rick Jackson, Auditor presented the FYE 2019 SIHD Audited Financial Statements. *(The Audited Financial report is provided at the end of these minutes.)*

Treasurer Branson stated that he thought it was interesting that SIHD had 4.3 million on depreciated equipment. Rick Jackson reported that we have a listing of all the equipment and it mainly fully depreciated. It could be that they have been eliminated in the books. We have a minor amount of equipment of cost value left.

Vice President Carson stated on Page 7 the "current liabilities" is at 13+million. Rick Jackson stated that he received the info from the seventh modified bankruptcy plan. On the exhibit, the majority of that is listed. When 2020 happens, about 6 million of that will be forgiven. The bankruptcy plan will firm out a lot of that.

Chet Beedle stated that the financials (liabilities) that he has been reporting have only been caring over the post-petition. The board will notice, as of May, you will see a change due to the filed plan.

President Hickman stated that this is for the year ending June 2019. Rick Jackson stated that we will see a very large forgiveness of debt on the 2020 income statements. The payback will go way down and the fund balance will go up.

**Action:** Treasurer Branson moved to approve the FYE 2019 SIHD Audited Financial Statements. Vice President Carson seconded.

**Roll call-**

Bruce Branson AYE  
Charles Carson AYE  
Jaque Hickman AYE

**III. ADJOURNMENT**

The meeting adjourned at 4:12pm

  
\_\_\_\_\_  
Board Member Signature  
July 24, 2020 Special Board Meeting

Date

9-9-2020

**Board of Directors:**

Jaqueline Hickman  
President

Charles Carson  
Vice President

Carma Roper  
Secretary

Bruce Branson  
Treasurer

Mark Lacey  
Director

**Audited Financial Statements**

**SOUTHERN INYO  
HEALTHCARE DISTRICT**

**June 30, 2019**

**JWT & Associates, LLP**  
**Certified Public Accountants**

Audited Financial Statements

SOUTHERN INYO HEALTH CARE DISTRICT

June 30, 2019

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## Management's Discussion and Analysis

### SOUTHERN INYO HEALTH CARE DISTRICT

June 30, 2019

The management of the Southern Inyo Health Care District (the Hospital) has prepared this annual discussion and analysis in order to provide an overview of the Hospital'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 Hospital'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 Hospital's financial performance.

#### *Financial Summary for the Year*

- Total assets increased by \$4,296,514 from the prior fiscal year.
- Total operating cash and cash equivalents increased by \$1,449,856 over the prior year.
- Net patient accounts receivable increased by \$810,430. Net days in patient a/r were 80.62 for 2019 as compared to 62.03 in 2018.
- Current liabilities increased by \$4,917,097 from the prior fiscal year.
- The operating loss was \$(1,376,591) as compared to the prior year operating loss of \$(1,892,463).
- The decrease in net position was \$(620,583) for 2019 as compared to a decrease of \$(1,204,883) in 2018.
- The Hospital is still continuing with proceedings for Chapter 9 bankruptcy as discussed in more detail in other sections of this discussion as well as within the financial statements.

#### *Cash and Investments*

For the fiscal year ended June 30, 2019, the Hospital's operating cash and cash equivalents totaled \$1,796,491 as compared to \$346,635 in the prior fiscal year. At June 30, 2019, days cash on hand was 60.93 as compared to the prior year of 13.93. The majority of the Hospital's cash is deposited with local banks and in other short-term money market accounts to maintain liquidity.

Management's Discussion and Analysis (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

*Current Liabilities*

As previously noted, current liabilities of the Hospital increased by \$4,917,097 due to the lack of cash flow from Hospital operations. The Hospital is challenged to maintain sufficient cash flow to sustain operations. The current ratio was .54 for 2019 and .32 for 2018 when total liabilities are taken into consideration.

*Capital Assets*

During the year, the Hospital did not reinvested into the facility as no material building or equipment purchases were made. The depreciation expense of \$259,045 for 2019 as compared to \$407,544 for 2018. According to generally accepted accounting principles (GAAP), all property and equipment is recorded at historical costs and depreciated over a useful life as defined by the American Hospital Association. The Hospital does not carry the value of its property and equipment at a fair market value but rather on a historical cost basis less accumulated depreciation. It is management's belief that the fair market value of the Hospital's fixed assets is greater than its recorded historical cost, net of accumulated depreciation.

*Volumes*

- Patient days were 8,774 for current fiscal year as compared to 9,173 for the prior year. The decrease was due primarily to a decrease in skilled nursing patient activity for 2019 as compared to 2018.
- Outpatient areas showed various volume increases as patients utilized the outpatient settings such as in the emergency room, lab and x-ray.
- Current year rural health clinic visits were 3,499 as compared to 3,636 visits for the prior year

*Gross Patient Charges*

The Hospital charges all its patients equally based on its established pricing structure for the services rendered. The charge master is evaluated on an ongoing basis to ensure that all only allowable charges are billed to comply with Medicare and Medi-cal regulations.

Inpatient gross patient service charges decreased by \$163,986 from the prior year. This was due primarily to the changes in skilled nursing days the current year offset by rate increases. Outpatient gross patient service charges increased by \$1,218,179 due changes in outpatient volumes and rate increases.

Management's Discussion and Analysis (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

***Deductions From Revenue***

Deductions from revenue are comprised of contractual allowances and bad debt provisions. Contractual allowances are computed deductions based on the difference between gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal and other third party payors such as Blue Cross.

Deductions from revenue (as a percentage of gross patient service charges) were 26.20% for the current fiscal year. The deductions from revenue percentage was decreased due to increased settlements due to Medicare critical access status and the continued increase in governmental QAF, Prime, and other supplemental programs.

***Net Patient Service Revenues***

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues increased by \$2,040,740 in the current fiscal year over the prior year. This was primarily due to changes in patient volumes and increases in the supplemental programs as previously mentioned.

***Operating Expenses***

Total operating expenses were \$10,761,515 for the current fiscal year compared to \$9,274,286 for the prior fiscal year. The changes were as follows:

- A \$1,894,349 increase in salaries and wages and benefits due to added FTE's.
- A \$405,917 increase in professional fees mainly due to bankruptcy fees.
- A \$118,648 increase in supplies due to patient volumes changes during the year.
- A \$619,426 decrease in purchased services due to discontinued services from the prior year.
- A \$147,563 increase in other operating expenses.

Management's Discussion and Analysis (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

***Bankruptcy Proceedings***

On or about January 4, 2016, the Hospital filed a voluntary petition for relief under Chapter 9 of title 11 of the United States Code (the Bankruptcy Code) The Hospital is represented by legal counsel in a pending reorganization under Chapter 9 of Title 11 United States Code (the Bankruptcy Code) in the United States Bankruptcy Court - Eastern District of California, Fresno Division. The purpose of the Hospital's plan of reorganization is to restructure certain classifications of the Hospital's debt and provide for their payment in whole or part. Certain debt may be susceptible to being discharged or rendered unenforceable. The ultimate success of the plan will depend primarily on the ability of the Hospital's management to operate the hospital at a level of increased cash flows and thereby generate sufficient cash flows, coupled with Hospital property taxes, to meet their obligations in the normal course of hospital operations.

Hospital management is continuing a program of cost reductions and revenue enhancement which it believes will result in improved cash flows. In order to achieve the goal of continued operations, the Hospital's board of directors has signed an agreement with another local health care district for selected services due to their expertise in hospital operational efficiencies and providing high quality patient care.



# **JWT & Associates, LLP**

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon Avenue, Suite 211, Fresno, California 93720

Voice: (559) 431-7708 Fax: (559) 431-7685

## *Report of Independent Auditors*

The Board of Directors  
Southern Inyo Health Care District  
Lone Pine, California

We have audited the accompanying financial statements of the Southern Inyo Health Care District, a district hospital (the Hospital) which comprise the statements of financial 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 Hospital'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 Hospital'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 L, on or about January 4, 2016, the Hospital filed a voluntary petition for relief under Chapter 9 of title 11 of the United States Code (the Bankruptcy Code). The Hospital 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 Hospital's ability to continue hospital operations in the future. The Hospital's plans in regard to these matters are also more fully described in Note L. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of assets or the amounts and classifications of liabilities that resulted from the inability of the Hospital to meet its obligations from continued hospital operations.

*Other Matters - Uncertainties Involving Certain Liabilities*

The Hospital has recorded various liabilities as of the date of the Bankruptcy, along with those incurred after January 4, 2016, both of which are reflected in the financial statements as of June 30, 2019 and 2018. As a part of the Bankruptcy proceedings, Hospital creditors have submitted their claims as to how much they believe to be owed by the Hospital. These claims are in process of being analyzed and substantiated litigated for the Bankruptcy Plan of Adjustment (the Plan), as well as other procedures to validate other claims by the Hospital's creditors. As a result, it is too soon to determine the impact on the financial statements as of June 30, 2019 and 2018 until these reconciling procedures can be completed.

*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 Hospital 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.

***JWT & Associates, LLP***

Fresno, California  
May 20, 2020

Statements of Financial Position

SOUTHERN INYO HEALTH CARE DISTRICT

	June 30	
	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,796,491	\$ 346,635
Assets limited as to use available for current obligations	7,698	8,613
Patient accounts receivable, net of allowances	2,010,603	1,200,173
Other receivables	631,188	688,912
Estimated third party payor settlements	2,679,263	305,389
Inventories	113,896	64,198
Prepaid expenses and other current assets	<u>18,749</u>	<u>88,409</u>
Total current assets	7,257,888	2,702,329
Assets limited as to use, less available for current obligations	-0-	-0-
Capital assets, net of accumulated depreciation	<u>930,872</u>	<u>1,189,917</u>
	<u>\$ 8,188,760</u>	<u>\$ 3,892,246</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Current maturities of debt borrowings	\$ -0-	\$ -0-
Accounts payable and accrued expenses	13,114,610	8,163,834
Accrued payroll and related liabilities	309,702	190,346
Estimated third party payor settlements	<u>                    </u>	<u>153,035</u>
Total current liabilities	13,424,312	8,507,215
Debt borrowings, net of current maturities	<u>-0-</u>	<u>-0-</u>
Total liabilities	13,424,312	8,507,215
Net position:		
Invested in capital assets, net of related debt (deficit)	930,872	645,674
Unrestricted net position (deficit)	<u>(6,166,424)</u>	<u>(5,260,643)</u>
Total net position(deficit)	<u>(5,235,552)</u>	<u>(4,614,969)</u>
	<u>\$ 8,188,760</u>	<u>\$ 3,892,246</u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

SOUTHERN INYO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
<b>Operating revenues</b>		
Net patient service revenue	\$ 9,102,992	\$ 7,062,252
Other operating revenue	<u>281,932</u>	<u>319,571</u>
Total operating revenues	9,384,924	7,381,823
<b>Operating expenses</b>		
Salaries and wages	5,218,427	3,832,812
Employee benefits	1,275,296	766,562
Professional fees	1,896,394	1,490,477
Supplies	416,098	297,450
Purchased services	196,867	816,293
Utilities and phone	189,738	322,093
Building and equipment rent	107,998	254,781
Insurance	207,186	239,371
Depreciation and amortization	259,045	407,544
Other operating expenses	<u>994,466</u>	<u>846,903</u>
Total operating expenses	<u>10,761,515</u>	<u>9,274,286</u>
Operating loss	(1,376,591)	(1,892,463)
<b>Nonoperating revenues (expenses)</b>		
District tax revenues	905,879	887,433
Investment income	1,043	358
Interest expense	(259,490)	(216,056)
Grants and contributions	<u>108,576</u>	<u>15,845</u>
Total nonoperating revenues (expenses)	<u>756,008</u>	<u>687,580</u>
Increase (decrease) in net position	(620,583)	(1,204,883)
Net position (deficit) at beginning of the year	<u>(4,614,969)</u>	<u>(3,410,086)</u>
Net position (deficit) at end of the year	<u><u>\$ (5,235,552)</u></u>	<u><u>\$ (4,614,969)</u></u>

*See accompanying notes and auditor's report*

Statements of Cash Flows

SOUTHERN INYO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Cash received from patients and third-parties on behalf of patients	\$ 5,765,653	\$ 7,388,680
Cash received from operations, other than patient services	339,656	321,484
Cash payments to suppliers and contractors	(961,991)	(3,323,673)
Cash payments to employees and benefit programs	<u>(6,374,367)</u>	<u>(4,552,009)</u>
Net cash (used in) operating activities	692,933	(165,518)
<b>Cash flows from noncapital financing activities:</b>		
District tax revenues	905,879	887,433
Grants and contributions	<u>108,576</u>	<u>15,845</u>
Net cash provided by noncapital financing activities	1,014,455	903,278
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets and write offs		(245,155)
Interest payments on debt borrowings	<u>(259,490)</u>	<u>(216,056)</u>
Net cash (used in) capital financing activities	(259,490)	(461,211)
<b>Cash flows from investing activities:</b>		
Net change in assets limited as to use	915	(2,163)
Interest and dividends received from investments	<u>1,043</u>	<u>358</u>
Net cash provided by (used in) investing activities	<u>1,958</u>	<u>(1,805)</u>
Net increase (decrease) in cash and cash equivalents	1,449,856	274,744
Cash and cash equivalents at beginning of year	<u>346,635</u>	<u>71,891</u>
Cash and cash equivalents at end of year	<u>\$ 1,796,491</u>	<u>\$ 346,635</u>

*See accompanying notes and auditor's report*

Statements of Cash Flows (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating loss	\$ (1,376,591)	\$ (1,892,463)
Adjustments to reconcile operating loss to net cash (used in) operating activities:		
Depreciation and amortization	259,045	407,544
Provision for bad debts	341,794	150,907
Changes in operating assets and liabilities:		
Patient accounts receivables	(1,152,224)	(42,235)
Other receivables	57,724	1,913
Inventories	(49,698)	961
Prepaid expenses and deposits	69,660	2,151
Accounts payable and accrued expenses	4,950,776	940,583
Accrued payroll and related liabilities	119,356	47,365
Estimated third party payor settlements	<u>(2,526,909)</u>	<u>217,756</u>
Net cash provided by (used in) operating activities	<u>\$ 692,933</u>	<u>\$ (165,518)</u>

*See accompanying notes and auditor's report*

Notes to Financial Statements

SOUTHERN INYO HEALTH CARE DISTRICT

June 30, 2019

**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity:** Southern Inyo Health Care District (the Hospital) 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 Hospital is a political subdivision of the State of California and is generally not subject to state or federal income taxes. The Hospital is governed by a five-member board of directors who are elected to specific terms. The Hospital, located in Lone Pine, California, is comprised of a 4-bed acute care unit and a 33-bed distinct-part skilled nursing unit. The Hospital provides services both on an inpatient and outpatient basis.

**Basis of Preparation:** The accounting policies and financial statements of the Hospital 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 Hospital 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 Hospital 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:** Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the Hospital's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

**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 and Investments:** The Hospital 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, when present, 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.

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Patient Accounts Receivable:*** Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital 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 Hospital does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

***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. Amounts required to meet current obligations of the Hospital, are classified as current assets.

***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 5 to 7 years for equipment. The Hospital periodically reviews its capital assets for value impairment. As of June 30, 2019 and 2018, the Hospital has determined that no capital assets are significantly impaired.

***Compensated Absences:*** The Hospital's employees earn paid-time-off (PTO) benefits at varying rates depending on years of service. Benefits can accumulate up to specified maximum levels. Employees are paid for accumulated PTO if they leave either upon termination or retirement. Accrued PTO liabilities as of June 30, 2019 and 2018 were \$167,416 and \$101,858 respectively.

***Risk Management:*** Commercial insurance is generally purchased to cover the Hospital against 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 employee health, dental, and accidental benefits. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The Hospital is also insured for medical malpractice claims and judgements, as discussed later in these footnotes.

***Statements of Cash Flows:*** For purposes of the combined statements of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash paid for interest expense during the year ended June 30, 2019 and 2018 was \$259,490 and \$216,056, respectively.



Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Positions:** Net positions 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 assets 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 does 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.

**Charity Care:** The Hospital 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 Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenues. Services provided are recorded through the accounting records of the Hospital as gross patient service revenues and then entirely written off.

**District Tax Revenues:** The Hospital receives approximately 10% 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 Hospital's behalf during the year, and are intended to help finance the Hospital'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 Hospital receives grants from various governmental agencies and private organizations. The Hospital 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.

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Operating Revenues and Expenses:* The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS**

As of June 30, 2019 and 2018, the Hospital had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounted to \$851,788 and \$319,475. 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 Hospital's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the Hospital's deposits. California law also allows financial institutions to secure Hospital deposits by pledging first trust deed mortgage notes having a value of 150% of the Hospital's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the Hospital.

Investments consist of funds deposited in the LAIF funds which invests in several market pools as allowed according to public restrictions on investments. 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**

Gross and net patient service revenues summarized by payor are as follows:

	<u>2019</u>	<u>2018</u>
Daily hospital services	\$ 4,648,637	\$ 5,007,889
Inpatient ancillary services	839,841	644,575
Outpatient services	<u>6,846,670</u>	<u>5,628,491</u>
Gross patient service revenues	12,335,148	11,280,955
Less deductions from gross revenues	<u>(3,232,156)</u>	<u>(4,218,703)</u>
Net patient service revenues	<u>\$ 9,102,992</u>	<u>\$ 7,062,252</u>

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE C - NET PATIENT SERVICE REVENUES (continued)**

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

**Medicare:** Payments for acute care services rendered to Medicare program beneficiaries are paid on cost reimbursement principles. The Hospital was classified as a critical access hospital effective April 1, 2001. The Hospital is paid for services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2019, cost reports through June 30, 2018, have been audited or otherwise final settled.

**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. The Hospital is paid for cost-based inpatient services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. The Hospital's rural health care clinic is paid under a prospective payment system (PPS) which requires submission of an annual PPS reconciliation to be filed with the State of California, after which it is subject to audit by the State. At June 30, 2019, cost reports through June 30, 2016, have been audited or otherwise final settled.

**Other:** Payments for services rendered to other than Medicare, 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.

**NOTE D - CONCENTRATION OF CREDIT RISK**

**Financial Instruments:** Financial instruments, potentially subjecting the Hospital to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000. There are no deposits as of June 30, 2019 and 2018 that exceed the FDIC limit in any of the Hospital's bank accounts. Furthermore, management believes that any risk of loss is minimal due to the high financial quality of the bank with which the Hospital does business. Management further believes that there is no risk of material loss due to government held investments in the Local Agency Investment Fund or with Inyo County due to the nature of those accounts as government owned. In addition, the Hospital 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.

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE D - CONCENTRATION OF CREDIT RISK (continued)**

The Hospital 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 Hospital 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 Hospital. Concentration of patient accounts receivable are as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 1,901,454	\$ 2,262,697
Medi-Cal	3,522,824	2,033,325
Commercial insurances	2,118,721	1,513,676
Self pay and others	<u>1,267,604</u>	<u>1,565,475</u>
Gross patient accounts receivable	8,810,603	7,375,173
Less allowances for contractual adjustments and bad debts	<u>(6,800,000)</u>	<u>(6,175,000)</u>
Net patient accounts receivable	<u>\$ 2,010,603</u>	<u>\$ 1,200,173</u>

**NOTE E - OTHER RECEIVABLES**

Other receivables were comprised of the following:

	<u>2019</u>	<u>2018</u>
Inyo County property tax receivable	\$ 24,171	\$ 37,329
Interest receivable	843	
Other government-related receivables	<u>606,174</u>	<u>651,583</u>
	<u>\$ 631,188</u>	<u>\$ 688,912</u>

The Hospital may from time-to-time enter into physician guarantee agreements due to possible needs to recruit physicians in certain specialties to the area. These agreements generally provide for a certain level of income for a specified period of time. The physician is then expected to practice in the area for another specified period of time, during which the amounts paid to the physicians are ratably forgiven. FASB guidelines require the Hospital to establish both an asset and a liability for the estimated fair value of its physician income guarantees at the inception of contracts entered into after January 1, 2006. The asset is amortized to expense using the straight-line amortization method over the life of the guarantee, while the liability is reduced by actual amounts paid on the guarantee. Generally, in the healthcare industry, advances to physicians are comprised of physician income guarantees and/or business loans to those physicians requiring assistance to begin a local practice. As of June 30, 2019 and 2018, the Hospital has no material agreements of this type.

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE F - CAPITAL ASSETS**

Capital assets were comprised of the following:

	<u>Balance at June 30, 2018</u>	<u>Transfers &amp; Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2019</u>
Land and land improvements	\$ 693,511			\$ 693,511
Buildings and improvements	2,982,474			2,982,474
Equipment	4,351,145			4,351,145
Construction in progress				
Totals at historical cost	<u>8,027,130</u>	<u>          </u>	<u>          </u>	<u>8,027,130</u>
Less accumulated depreciation for:				
Land and land improvements	(127,758)	(19,443)		(147,201)
Buildings and improvements	(2,806,613)	(24,553)		(2,831,166)
Equipment	<u>(3,902,842)</u>	<u>(215,049)</u>		<u>(4,117,891)</u>
Total accumulated depreciation	<u>(6,837,213)</u>	<u>(259,045)</u>	<u>\$</u>	<u>(7,096,258)</u>
Capital assets, net	<u>\$ 1,189,917</u>	<u>\$ (259,045)</u>	<u>\$</u>	<u>\$ 930,872</u>

	<u>Balance at June 30, 2017</u>	<u>Transfers &amp; Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2018</u>
Land and land improvements	\$ 693,511			\$ 693,511
Buildings and improvements	2,982,474			2,982,474
Equipment	4,422,690	\$ 245,155	\$ (316,700)	4,351,145
Construction in progress				
Totals at historical cost	<u>8,098,675</u>	<u>245,155</u>	<u>316,700</u>	<u>8,027,130</u>
Less accumulated depreciation for:				
Land and land improvements	(108,315)	(19,443)		(127,758)
Buildings and improvements	(2,781,394)	(25,219)		(2,806,613)
Equipment	<u>(3,856,660)</u>	<u>(362,882)</u>	<u>316,700</u>	<u>(3,902,842)</u>
Total accumulated depreciation	<u>(6,746,369)</u>	<u>(407,544)</u>	<u>\$ 316,700</u>	<u>(6,837,213)</u>
Capital assets, net	<u>\$ 1,352,306</u>	<u>\$ (162,389)</u>	<u>\$</u>	<u>\$ 1,189,917</u>

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE G - EMPLOYEES' RETIREMENT PLANS**

The Hospital has a defined contribution retirement plan covering substantially all of the Hospital's employees. The Hospital's policy is to fund pension costs incurred. The Hospital's pension expense for the plan, which is based on a percentage of the employees' compensation, was approximately \$63,000 and \$52,000 during the years ended June 30, 2019 and 2018, respectively.

**NOTE H - RELATED PARTY TRANSACTIONS**

The Southern Inyo Hospital Auxiliary (the Auxiliary), has been established to solicit contributions on behalf of the Hospital. Substantially all funds raised except for funds required for operation of the Auxiliary, are distributed to the Hospital or held for the benefit of the Hospital. The Auxiliary's funds, which represent the Auxiliary's unrestricted resources, are distributed to the Hospital in amounts and in periods determined by the Auxiliary board and management, who may also restrict the use of funds for Hospital property and equipment replacement, Hospital expansion, reimbursement of expenses, or other specific purposes. Donations in this regard were considered minor for the years ended June 30, 2019 and 2018 respectively.

The Hospital was formerly managed by Healthcare Conglomerate Associates, LLC (HCCA) during 2016 and part of 2017. As of June 30, 2019 and 2018, related party payables attributed to HCCA due to management contracts and loans to the Hospital amounted to approximately \$1.4 million as of June 30, 2019 and 2018. These amounts are currently in process of being settled through the Bankruptcy proceedings.

HCCA also managed Tulare Regional Medical Center (TRMC) in Tulare, California. During the time HCCA managed the Hospital, resources from TRMC were advanced to the Hospital by way of loans, supplies, personnel time, equipment and other. The Hospital has repaid any loans advanced by TRMC and remaining payables of approximately \$997,000 as of June 30, 2019 and 2018 are currently in process of being settled through the Bankruptcy proceedings.

**NOTE I - DEBT BORROWINGS**

As of June 30, 2019 and 2018, debt borrowings are shown as accounts payable due to the fact that they have been included in the Bankruptcy proceedings and are being settled through this process. No new significant debt borrowings exist since the Plan was effected. The secured debt is in process of negotiations and settlements and it is unknown as of the date of these financial statements what impact those actions will have on the Hospital's financial statements going forward.

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE J - COMMITMENTS AND CONTINGENCIES**

**Construction-in-Progress:** As of June 30, 2019 and 2018, the Hospital had \$-0- in amounts recorded as construction-in-progress representing cost capitalized for various remodeling, major repair, or expansion projects on the Hospital's premises. During times of construction, interest expense associated with construction debt can be capitalized under FAS 62. No interest was capitalized during the year. Future commitments for these projects are considered minor.

**Operating Leases:** The Hospital 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 \$107,998 and \$254,781, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2018, that have initial or remaining lease terms in excess of one year are not considered material.

**Litigation:** The Hospital is involved in certain litigation which have arisen in the normal course of business and through the bankruptcy proceedings. After consultation with legal counsel, management has recorded any possible losses as a result of these proceedings and estimates that matters existing as of June 30, 2019 will be resolved without further significant material adverse effect on the Hospital's future financial position, results from operations or cash flows.

**Medical Malpractice Claims:** The Hospital maintains commercial malpractice liability insurance coverage under various claims-made policies covering losses up to \$5 million per claim with a per claim deductible of \$5,000. The Hospital plans to maintain the coverage by renewing its current policy or by replacing it with equivalent insurance.

**Workers Compensation Program:** The Hospital is a participant in the Beta Risk Management Authority (the Fund) which administers a self-insured worker's compensation plan for participating hospital employees of its member hospitals. The Hospital pays premiums to the Fund which are adjusted annually. If participation in the Fund is terminated by the Hospital, the Hospital would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the Fund

**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 Hospital 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.

Notes to Financial Statements (continued)

SOUTHERN INYO HEALTH CARE DISTRICT

**NOTE K - INVESTMENTS**

The Hospital'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>
Local agency investment fund	\$ 375,810	\$ 375,810		
Cash Inyo County treasury	<u>576,591</u>	<u>576,591</u>		
Total investments	<u>\$ 952,401</u>	<u>\$ 952,401</u>	<u>\$ -0-</u>	<u>\$ -0-</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>
Local agency investment fund	\$ 5,681	\$ 5,681		
Cash in Inyo County treasury	<u>30,091</u>	<u>30,091</u>		
Total investments	<u>\$ 35,772</u>	<u>\$ 35,772</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The Hospital's investments are reported at fair value as previously discussed. The Hospital's investment policy allows for various forms of investments generally held with government agencies. Policies generally identify 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 a hospital may manage 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 hospital operations. Information about the sensitivity of the fair values of the Hospital's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the Hospital'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 a nationally recognized statistical rating organization, such as Moody's Investor Service, Inc. Generally a hospital's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of \$500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.



Notes to Financial Statements (continued)

SOUTHERN INYO 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), a hospital would not be able to recover the value of its investment or collateral securities that are in the possession of another party. A hospital's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

**NOTE L - CHAPTER 9 BANKRUPTCY**

On or about January 4, 2016, the Hospital filed a voluntary petition for relief under Chapter 9 of title 11 of the United States Code (the Bankruptcy Code) The Hospital is represented by legal counsel in a pending reorganization under Chapter 9 of Title 11 United States Code (the Bankruptcy Code) in the United States Bankruptcy Court - Eastern District of California, Fresno Division. The purpose of the Hospital's plan of reorganization is to restructure certain classifications of the Hospital's debt and provide for their payment in whole or part. Certain debt may be susceptible to being discharged or rendered unenforceable. The ultimate success of the plan will depend primarily on the ability of the Hospital's management to operate the hospital at a level of increased cash flows and thereby generate sufficient cash flows, coupled with Hospital property taxes, to meet their obligations in the normal course of hospital operations.

Hospital management is continuing a program of cost reductions and revenue enhancement which it believes will result in improved cash flows. In order to achieve the goal of continued operations, the Hospital's board of directors has signed an agreement with another local health care district for selected services due to their expertise in hospital operational efficiencies and providing high quality patient care.

The financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary should the Hospital be unable to continue hospital operations.

**NOTE M - SUBSEQUENT EVENTS**

Subsequent to the date of these financial statements, a "Modified Seventh Amended Plan for the Adjustment of Debts of Southern Inyo Healthcare District" was filed on June 8, 2020. This latest Plan reduces debt to approximately \$5.9 million and provides specific payment terms for the remaining debt over an approximate 10 years.

Management evaluated the effect of other subsequent events on the financial statements through May 20, 2020, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.