

TULARE LOCAL HEALTH CARE DISTRICT dba TULARE REGIONAL MEDICAL CENTER

Finance Committee Meeting

Tuesday, February 26, 2019, 6:30 P.M.

TRMC Administrative Offices (Annex Lab Building, 2nd Floor)

869 North Cherry Street, Tulare, CA (Enter parking lot from Merritt Avenue)

AGENDA

- **Finance Committee Members:** Mike Jamaica and Senovia Gutierrez

- **Call to Order:**
 - Roll Call
 - Welcome and Introductions

- **Public Comment:** The public may comment on any item of public interest within the jurisdiction of the Tulare Local Healthcare District Board of Directors. In the interest of time and equal opportunity, speakers are requested to observe a 3-minute maximum time limit (subject to change at the Chair's direction). In accordance with the Brown Act, if a member of the public addresses an item not on the posted agenda, no response, or action on the item may occur during the meeting.

- **Finance Committee - Review and Recommend the following for Board Approval:**
 - a. October, November, and December 2018 Internal Financial Statements (to be distributed)
 - b. Hospital Operations, AH- Internal Financial Statements for November 30, 2018 and December 31, 2018 (to be distributed)
 - c. TLHCD Financial Audit Report - Presentation and Approval of FYE's June 30, 2018 and June 30, 2017 – Rick Jackson, C.P.A., JWT and Associates, LLP
 - d. TLHCD Information Technology (I/T) Transition Plans and Needs Discussion
 - e. Accounts Payable Update – TLHCD
 - f. Cash Report Update – TLHCD; City of Tulare Line of Credit Update (verbal)

- **Other – Discussion and Update to Draft of Phase 2 Capital Projects (Post Hospital Opening)**

- **March Meeting Date – Tuesday, March 26, 2019**

- **Adjourn**

Tulare Local Healthcare District dba Tulare Regional Medical Center

Agenda Item

Board Meeting Date:

February 27, 2019

Title to Appear on Agenda:

October, November, and December 2018 Balance Sheets and Statements of Revenue and Expenses

Brief Description:

The District prepares internal monthly financial statements to monitor the ongoing financial position of the District.

Background and Details:

These Internal Statements were prepared based on the following facts:

The financial audits of the Tulare Local Health Care District dba Tulare Regional Medical Center's accounting books and records for the FYE June 30, 2017 and FYE June 30, 2018 were just completed on February 21, 2019. Given this shortened time frame to prepare the October, November, and December Statements, we have made every attempt to incorporate those results which impact FYE 2019 into these reports. Any additional carry forward adjustments that are necessary from the completed 2017 & 2018 audits will be reflected in future Internal Statements.

Exhibits:

To be included or delivered at the meeting

Recommended Action:

To review and accept the Statements as presented at the meeting

Tulare Local Healthcare District dba Tulare Regional Medical Center
Agenda Item

Board Meeting Date:

February 27, 2019

Title to Appear on Agenda:

Hospital Operations – Adventist Health; Internal Financial Statements for November 30, 2018 and December 31, 2018

Brief Description:

The District re-opened the Hospital on October 15, 2018, and Adventist Health assumed Management of the Operations and related financial responsibility of said operations.

Background and Details:

The accounting and reporting of these new operations required the establishment of a second set of general ledger accounts and with related reporting functionality.

These internal financial reports are anticipated to be available for presentation at the February Finance Committee and Board meetings.

Exhibits:

To be included or delivered at the meetings.

Recommended Action:

To review and accept the statements to be presented.

Tulare Local Healthcare District dba Tulare Regional Medical Center
Agenda Item

Board Meeting Date: February 27, 2019

Title to Appear on Agenda:

TLHCD Financial Audit Report – Presentation and Approval for FYE's June 30, 2018 and June 30, 2017 – Rick Jackson, C.P.A., JWT and Associates, LLP

Brief Description:

The District contracted with Rick Jackson, CPA of JWT and Associates, LLP to perform these financial audits for the District. Rick gave brief updates on the status of the audits at previous Finance Committee and Board of Director's meetings.

Background and Details:

Planning for the Audit commenced in July, and substantial field work started in September. The amount of staff research and work required to prepare for the two audits has been substantial and more time consuming than under normal circumstances.

Mr. Jackson will be presenting the audited reports at the February meetings.

Exhibits:

See Attached Audited Financial Statements

Recommended Action:

To approve the Audited Financial Statements at the February 27, 2019 Board meeting.

Audited Financial Statements

**TULARE LOCAL
HEALTH CARE DISTRICT**

dba Tulare Regional Medical Center

June 30, 2018

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

Audited Financial Statements

TULARE REGIONAL MEDICAL CENTER

June 30, 2018

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Management's Discussion and Analysis

TULARE REGIONAL MEDICAL CENTER

June 30, 2018

The management of the Tulare Local Health Care District (dba Tulare Regional Medical Center, e.g. 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, 2018 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information 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, 2018 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Summary

Tulare Regional Medical Center was closed for business on October 29, 2017. This followed the District's filing for Chapter 9 Bankruptcy protection on September 30, 2017. The Hospital was re-opened after a lengthy process of identifying a "partner" who could provide financial support along with expertise and experience in operating acute care hospitals. That partner is Adventist Health, who was selected in July, 2018, and who successfully led the quest to reopen the Hospital on October 15, 2018.

Background

Tulare Regional Medical Center was managed and operated by Healthcare Conglomerate Associates, LLC (HCCA) starting in 2014, and ending November 22, 2017. During that time, there was a significant decrease in overall days of care provided to patients (as compared to previous years), and although the cost of care per adjusted patient day dropped in 2015, it continued on a significant upward trend, especially in the FYE's 2016 and 2017. Finally, by mid-2017, the District came to the realization that the hospital's financial position was extremely precarious due to its inability to meet its financial obligations, and as such, it felt compelled to seek Chapter 9 Bankruptcy protection.

Key Issues

Although the financial audit preparations were initiated in July and August of 2017, the audit was never performed. After declaring bankruptcy, the District contracted with Wipfli/HFS Consultants to provide overall consultative services to address the District's needs and to work toward the goal of re-opening the Hospital. The Wipfli team started in October, 2017, and took possession of the Hospital on Monday, November 27, 2017. During the ensuing months, the following major actions were taken:

Management's Discussion and Analysis (continued)

TULARE REGIONAL MEDICAL CENTER

- 1 - A skeleton crew of Hospital staff members were retained to address the work needs anticipated for re-opening the Hospital;
- 2 - An operating budget and related cash budget needed to re-open the Hospital was developed and re-worked over the course of the next 6 months;
- 3 - Numerous funding sources were pursued, including filing for numerous third-party receivables, follow-up billings on the outstanding patient accounts receivables, and pursuit of various Supplemental Funding sources that are available to District hospitals which provide services to a large population of Medi-Cal patients;
- 4 - Interim loans were obtained from the Tulare Local Health Care Foundation along with a loan from another regional health system;
- 5 - Several months of negotiations with a regional health system failed to conclude a workable go-forward solution for the District, and a "Request for Proposal" was developed shortly thereafter in June, 2017 to reach out to other interested operators;
- 6 - The District received and accepted a proposal from Adventist Health to provide a \$10MM re-opening Line of Credit, a Management Services Agreement to operate the Hospital along with absorbing the related revenues and costs from time of opening until a Change of (Business) Ownership (CHOW) is attained. In order to obtain a CHOW, this first required a lease of the Hospital, and this lease to Adventist Health was approved by virtue of an 88.8% favorable vote of the District's property owners in the November election;
- 7 - A major effort to re-open the Hospital led by the Board, Adventist Health, Wipfli, and numerous community supporters was convened in July, 2017, re-licensing and certification was obtained from the State, and the Hospital successfully re-opened on Monday, October 15, 2018. All basic services needed to support an acute care hospital were opened at that time, including Emergency Room services which immediately was visited by 60 – 70 patients per day.

Future Initiatives

At the time the CHOW is completed, Adventist Health will take full responsibility of operating the Hospital as a new business entity entitled Adventist Health-Tulare. Also, over the course of the next few months, they plan to re-open the Obstetrical services, elective Surgical services, and various other services beneficial to the overall operation of the Hospital and the community.

The Tulare Local Health Care District (District) will continue to serve as Landlord to Adventist Health-Tulare, and will oversee the Hospital lease between the two parties. The District will hire appropriate staff necessary to carry out its' basic business and accounting functions, which also includes oversight of the management contract of its Evolutions Health Club business along with leasing out other commercial space to various businesses located on the

Management's Discussion and Analysis (continued)

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first floor of the Evolutions building. The District also owns several "cottage" type business commercial properties located near to the Hospital and will oversee management and leasing of these income producing ventures.

In February, 2019, the District obtained financing to assist in the recovery of its basic financial operations and will further be responsible to develop and implement a bankruptcy plan. The District will be responsible for certain capital improvements to the Hospital property, including completion of the partially completed Patient Services Tower. Finally, the District will be responsible to oversee re-payment of the outstanding General Obligation bonds which will be financed from property taxes, and Revenues bonds repayments which will come from additional property taxes along with income from the rentals and operations of other non-hospital properties. Funding for the completion of the Patient Services Tower will be addressed at a later date.

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership

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Report of Independent Auditors

The Board of Directors
Tulare Regional Medical Center
Tulare, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tulare Local Health Care District, (dba Tulare Regional Medical Center, e.g. the District) which comprise the statements of financial position as of June 30, 2018 and 2017, 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, hospital operations were closed. The District's actions in regard to these matters are more fully described in Note K. The financial statements do not include adjustments to reflect the future effects on the recoverability and classification of assets or the amounts and classification of liabilities that resulted from the District's closure of the hospital.

Other Matters - Uncertainties Surrounding a District Attorney Investigation

The Office of the District Attorney, County of Tulare, is in process of conducting an investigation into various matters regarding the District and its former management team. As of the date of this report it is not possible to disclose what material outcome, if any, the results of this investigation might have on the financial position and presentation of the financial statements of the District as of June 30, 2018 and 2017.

Other Matters - Uncertainties Regarding Property and Equipment

As part of the transactions with Adventist Health -Tulare, the District will be selling substantially all of its moveable equipment to Adventist Health - Tulare sometime in the very near future. In preparation for this sale, a reconciliation of the equipment inventory is in process. This preliminary work has raised certain issues regarding the District's equipment records. As a result, it is uncertain as to what financial impact the findings of this forthcoming inventory reconciliation will have upon the District's financial statements as of June 30, 2018 and 2017.

Other Matters - Uncertainties Involving Certain Liabilities

The District has recorded various liabilities as of the date of the Bankruptcy September 30, 2017 and previous, along with those incurred after September 30, 2017, both of which are reflected in the financial statements as of June 30, 2018 and 2017. As a part of the bankruptcy proceedings, District creditors have submitted their claims as to how much they believe to be owed by the District. These claims are in process of being analyzed and substantiated for the Bankruptcy Plan of Adjustment (the Plan), as well as other procedures to validate other claims by the District's creditors. As a result, it is too soon to determine the impact on the financial statements as of June 30, 2018 and 2017 until these reconciling procedures can be completed.

Other Matters - Uncertainties Related to Pending Litigation

The District is currently involved in several lawsuits related to hospital operations, contracts, agreements and other matters. As of the date of these financial statements, management believes that any potential future impact to the District, as a result of these actions, have been reflected in the District's financial statements, however, until the cases are settled, it isn't possible to determine the full impact these actions will have on the financial statements as of June 30, 2018 and 2017.

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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

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

JW7 & Associates, LLP

Fresno, California
February 21, 2019

Statements of Financial Position

TULARE REGIONAL MEDICAL CENTER

	June 30	
Assets	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 2,970,088	\$ 2,087,760
Assets limited as to use available for current debt service	4,504,186	3,772,670
Patient accounts receivable, net of allowances	1,161,845	5,635,763
Estimated third party and other receivables	4,117,520	1,852,042
Inventories	387,635	1,160,861
Prepaid expenses and deposits	<u>449,744</u>	<u>568,828</u>
Total current assets	13,591,018	15,077,924
Assets limited as to use	7,449,346	7,521,748
Capital assets, net of accumulated depreciation	<u>156,059,564</u>	<u>161,997,074</u>
Total assets	177,099,928	184,596,746
Deferred outflows of resources	<u>315,823</u>	<u>433,274</u>
	<u>\$177,415,751</u>	<u>\$185,030,020</u>
 Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 1,979,000	\$ 1,648,287
Accounts payable and accrued expenses	45,965,195	32,211,909
Accrued payroll and related liabilities	110,070	
Estimated third party and other liabilities	<u>5,924,488</u>	<u>34,319</u>
Total current liabilities	53,978,753	33,894,515
Debt borrowings, net of current maturities	<u>95,320,001</u>	<u>97,378,625</u>
Total liabilities	149,298,754	131,273,140
Net position		
Invested in capital assets, net of related debt	58,760,563	62,970,162
Restricted, by bond indenture for debt service	11,953,532	10,614,359
Unrestricted (deficit)	<u>(42,597,098)</u>	<u>(19,827,641)</u>
Total net position	<u>28,116,997</u>	<u>53,756,880</u>
	<u>\$177,415,751</u>	<u>\$185,030,020</u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

TULARE REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 12,158,299	\$ 38,751,788
Other operating revenue	<u>2,091,433</u>	<u>2,504,376</u>
Total operating revenues	14,249,732	41,256,164
Operating expenses		
Salaries and wages	1,532,445	
Employee benefits	376,663	
Professional fees	9,288,868	11,753,417
Supplies	3,019,596	8,834,964
Purchased services	20,254,015	51,407,901
Repairs and maintenance	284,243	472,582
Utilities and phone	1,259,004	1,560,939
Building and equipment rent	501,662	637,746
Insurance	1,046,816	1,270,010
Depreciation and amortization	3,381,815	3,567,312
Other operating expenses	<u>1,513,907</u>	<u>2,588,775</u>
Total operating expenses	<u>42,459,034</u>	<u>82,093,646</u>
Operating loss	(28,209,302)	(40,837,482)
Nonoperating revenues (expenses)		
District tax revenues	9,270,758	7,669,915
Investment gains and (losses), net	80,127	122,769
Interest expense	(6,781,466)	(6,863,174)
Grants and contributions	<u> </u>	<u>1,297,985</u>
Total nonoperating net revenues	<u>2,569,419</u>	<u>2,227,495</u>
Increase (decrease) in net position	(25,639,883)	(38,609,987)
Net position at beginning of the year	<u>53,756,880</u>	<u>92,366,867</u>
Net position at end of the year	<u>\$ 28,116,997</u>	<u>\$ 53,756,880</u>

See accompanying notes and auditor's report

Statements of Cash Flows

TULARE REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$ 20,260,863	\$ 57,952,072
Cash received from operations, other than patient services	2,087,478	10,451,143
Cash payments to suppliers and contractors	(22,522,515)	(70,856,381)
Cash payments to employees and benefit programs	<u>(1,799,038)</u>	<u>(2,756,903)</u>
Net cash (used in) operating activities	(1,973,212)	(5,210,069)
Cash flows from noncapital financing activities:		
District tax revenues	1,889,588	1,815,304
Grants and contributions		<u>1,297,985</u>
Net cash provided by noncapital financing activities	<u>1,889,588</u>	3,113,289
Cash flows from capital and related financing activities:		
Net changes in capital and other changes	2,673,146	(5,228,736)
District tax revenues for debt service	7,381,170	5,854,611
Proceeds from debt borrowings		800,000
Principal payments on debt borrowings	(1,727,911)	(2,153,525)
Interest payments on debt borrowings	<u>(6,781,466)</u>	<u>(6,863,174)</u>
Net cash (used in) capital financing activities	1,544,939	(7,590,824)
Cash flows from investing activities:		
Net (purchase) or sale of investments	(659,114)	248,176
Investment gains and (losses)	<u>80,127</u>	<u>122,769</u>
Net cash provided by investing activities	<u>(578,987)</u>	<u>370,945</u>
Net increase (decrease) in cash and cash equivalents	882,328	(9,316,659)
Cash and cash equivalents at beginning of year	<u>2,087,760</u>	<u>11,404,419</u>
Cash and cash equivalents at end of year	<u>\$ 2,970,088</u>	<u>\$ 2,087,760</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

TULARE REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (28,209,302)	\$ (40,837,482)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,381,815	3,567,312
Provision for uncollectible accounts	3,952,670	18,749,016
Changes in operating assets and liabilities:		
Patient accounts receivables	521,248	(13,290,322)
Other receivables	(3,955)	7,946,767
Inventories	773,226	45,731
Prepaid expenses and deposits	119,084	221,018
Accounts payable and accrued expenses	13,753,286	7,403,204
Accrued payroll and related liabilities	110,070	(2,756,903)
Estimated third party payor settlements	<u>3,628,646</u>	<u>13,741,590</u>
Net cash (used in) operating activities	<u>\$ (1,973,212)</u>	<u>\$ (5,210,069)</u>

See accompanying notes and auditor's report

TULARE REGIONAL MEDICAL CENTER

June 30, 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Tulare Local Health Care District (dba Tulare Regional Medical Center, e.g. 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 within the District's geographical political divisions to specified terms of office. The District is located in Tulare, California and owns a general acute care hospital facility, a home health agency, several rural health care clinics and other patient service programs. The District provides health care primarily to individuals who reside in the local geographic area.

In January, 2014 the District retained the services of Health Care Conglomerates Associates (HCCA) to manage and operate the healthcare services of the District. This agreement was replaced in May, 2014 by a long-term agreement with HCCA which would have allowed HCCA to manage the healthcare services of the District for a 15-year period. On November 9, 2014, all District employees transitioned to HCCA employment which were then leased to the District for the healthcare operations. All contractual agreements with HCCA were terminated by the District in 2017.

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: Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District'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.

TULARE REGIONAL MEDICAL CENTER

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

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 40 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment. As of June 30, 2018 and 2017, it is undetermined if any capital assets have been significantly impaired. (See Note K).

TULARE REGIONAL MEDICAL CENTER

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources: Deferred outflows of resources include deferred financing cost of the issuance of 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 \$151,906 for the years ended June 30, 2018 and 2017, 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 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 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.

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.

TULARE REGIONAL MEDICAL CENTER

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District'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.

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.

NOTE B - COMPONENT UNITS

The Tulare Hospital Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501(c)(3) to solicit contributions on behalf of the District. Substantially all funds raised except for funds required for operation of the Foundation, are distributed to the District or held for the benefit of the District. The Foundation's funds, which represent the Foundation's unrestricted resources, are distributed to the District in amounts and in period determined by the Foundation's Board of Trustees, who may also restrict the use of funds for District property and equipment replacement or expansion or other specific purposes.

Notes to Financial Statements (continued)

TULARE REGIONAL MEDICAL CENTER

NOTE B - COMPONENT UNITS (continued)

The Foundation, as specified in their mission statement, contributes annually, both in service and in funding, towards the healthcare of the residents of the Tulare healthcare service area, including the District.

The Tulare District Hospital Auxiliary (the Auxiliary) is a similar non-profit organization established to help solicit contributions for the District and also donates funds towards the healthcare effort of the Tulare area, including the District.

Both of these entities are considered component units of the District. Management believes that any financial impact these two entities would have upon the District's financial results would not be material and has therefore chosen not to include them in the financial statements of the District.

NOTE C - CASH AND CASH EQUIVALENTS

As of June 30, 2018 and 2017, the District had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounted to \$2,967,488 and \$2,766,068. 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 assets.

TULARE REGIONAL MEDICAL CENTER

NOTE D - 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, 2018, cost reports through June 30, 2016 have been 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. Medi-Cal managed care services are paid on a pre-determined rate and are not subject to cost reimbursement. At June 30, 2018, cost reports through June 30, 2016, have been final settled

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.

Net patient service revenues summarized by payor are as follows:

	<u>2018</u>	<u>2017</u>
Daily hospital services	\$ 7,934,934	\$ 36,765,249
Inpatient ancillary services	33,159,967	126,282,648
Outpatient services	<u>19,868,319</u>	<u>92,442,929</u>
Gross patient service revenues	60,963,220	255,490,826
Less deductions from revenue	<u>(48,804,921)</u>	<u>(216,739,038)</u>
Net patient service revenues	<u>\$ 12,158,299</u>	<u>\$ 38,751,788</u>

Medicare and Medi-Cal revenue accounts for approximately 70% of the District's gross patient revenues. 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 may change by material amounts in the near term as final settlements are determined.

Notes to Financial Statements (continued)

TULARE REGIONAL MEDICAL CENTER

NOTE E - PATIENT ACCOUNTS RECEIVABLE AND 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Medicare and Medicare advantage	\$ 4,583,138	\$ 11,940,732
Medi-Cal and Medi-Cal managed care	9,130,855	23,789,179
Other third party payors	3,782,300	9,854,259
Self pay and other	<u>6,225,975</u>	<u>16,220,917</u>
Gross patient accounts receivable	23,722,268	61,805,087
Less allowances for deductions from revenue	<u>(22,560,423)</u>	<u>(56,169,324)</u>
Net patient accounts receivable	<u>\$ 1,161,845</u>	<u>\$ 5,635,763</u>

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2018 and 2017 were comprised of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents held by the County of Tulare under general obligation bond agreements for specific requirements	\$ 10,481,313	\$ 8,909,051
Cash and cash equivalents held in trust by a financial institution under revenue bond agreements for specific requirements	<u>1,472,219</u>	<u>2,385,367</u>
	11,953,532	11,294,418
Less restricted trust funds available for current debt service	<u>(4,504,186)</u>	<u>(3,772,670)</u>
	<u>\$ 7,449,346</u>	<u>\$ 7,521,748</u>

Notes to Financial Statements (continued)

TULARE REGIONAL MEDICAL CENTER

NOTE G - CAPITAL ASSETS

Capital assets as of June 30, 2018 and 2017 were comprised of the following:

	<u>Balance at June 30, 2017</u>	<u>Additions & Deletions</u>	<u>Reclasses & 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>138,042,717</u>	<u>\$ (2,690,823)</u>	<u> </u>	<u>135,351,894</u>
Totals at historical cost	228,346,244	(2,690,823)		225,655,421
Less accumulated depreciation for:				
Land and land improvements	(929,691)	(30,963)		(960,654)
Buildings and improvements	(32,357,425)	(1,762,236)		(34,119,661)
Equipment	<u>(33,062,054)</u>	<u>(1,453,488)</u>	<u> </u>	<u>(34,515,542)</u>
Total accumulated depreciation	<u>(66,349,170)</u>	<u>(3,246,687)</u>	<u> </u>	<u>(69,595,857)</u>
Capital assets, net	<u>\$161,997,074</u>	<u>\$ (5,937,510)</u>	<u>\$ </u>	<u>\$156,059,564</u>

	<u>Balance at June 30, 2016</u>	<u>Additions & Deletions</u>	<u>Reclasses & Retirements</u>	<u>Balance at June 30, 2017</u>
Land and land improvements	\$ 3,301,871			\$ 3,301,871
Buildings and improvements	45,456,675	\$ 785,405		46,242,080
Equipment	35,893,908	4,865,668		40,759,576
Construction-in-progress	<u>138,188,920</u>	<u>(146,203)</u>	<u> </u>	<u>138,042,717</u>
Totals at historical cost	222,841,374	5,504,870		228,346,244
Less accumulated depreciation for:				
Land and land improvements	(893,568)	(36,123)		(929,691)
Buildings and improvements	(30,642,912)	(1,714,513)		(32,357,425)
Equipment	<u>(31,385,631)</u>	<u>(1,676,423)</u>	<u> </u>	<u>(33,062,054)</u>
Total accumulated depreciation	<u>(62,922,111)</u>	<u>(3,427,059)</u>	<u> </u>	<u>(66,349,170)</u>
Capital assets, net	<u>\$159,919,263</u>	<u>\$ 243,373</u>	<u>\$ </u>	<u>\$161,997,074</u>

Notes to Financial Statements (continued)

TULARE REGIONAL MEDICAL CENTER

NOTE H - DEBT BORROWINGS

As of June 30, 2018 and 2017, debt borrowings were as follows:

	<u>2018</u>	<u>2017</u>
General obligation bonds, election of 2005, series A (2007); interest at 4.00% to 4.65% due semiannually; principal due in annual amounts ranging from \$125,000 on August 1, 2018 to \$2,000,000 due on August 1, 2037; collateralized by tax revenues:	\$ 14,655,000	\$ 14,760,000
Series 2007 refunding revenue bonds; interest at 3.75% to 5.20% due semiannually; principal due in annual amounts ranging from \$1,185,000 due on November 1, 2018 to \$1,210,000 due on November 1, 2032; collateralized by District revenues:	13,650,000	13,650,000
General obligation bonds, election of 2005, series B (2009); interest at 6.45% to 8.00% due semiannually; principal due in annual amounts ranging from \$575,000 on August 1, 2018 to \$7,240,000 due on August 1, 2039; collateralized by tax revenues:	68,900,000	69,350,000
Other various debt borrowings	<u>94,001</u>	<u>1,266,912</u>
	97,299,001	99,026,912
Less current maturities of debt borrowings	<u>(1,979,000)</u>	<u>(1,648,287)</u>
	<u>\$ 95,320,001</u>	<u>\$ 97,378,625</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$1,979,000 in 2019; \$1,500,000 in 2020; \$1,700,000 in 2021; \$1,920,000 in 2022 and \$2,135,000 in 2023.

The Series 2007 refunding revenue bonds require that the District maintain a long-term debt service coverage ratio of not less than 1.25 times. For the fiscal year ended June 30, 2018 and 2017, the District did not comply with this requirement. At this time, it is too soon to tell what consequences this non-compliance may have on the operations and debt structure of the District.

The interest payments for the general obligation bonds issued in 2009 are subsidized over the life of the issue by a U. S. Government stimulus funds by approximately 32%, leaving the tax revenues to cover approximately 68%. The prior management of the District received payment from the U. S. Government towards this program and used the funds for operations of the hospital instead of subsidizing payments for the general obligation bonds. At this time, it is unknown what consequences this action of the prior management may have on the District.

TULARE REGIONAL MEDICAL CENTER

NOTE I - COMMITMENTS AND CONTINGENCIES

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, 2018 and 2017.

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.

Construction Delays: Several years ago the District began construction on the "Tower Project" which was funded through bond measures. Funding from the bond measures has since been exhausted and the project remains uncompleted. The District plans to seek additional funding in the future in order to complete the project. As of the date of these financial statements, it is unknown 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 during the fiscal years ended June 30, 2018 and 2017. Capitalization of interest will resume once construction on the project begins again.

Litigation: The District is involved in various types of litigation matters which generally arise in the normal course of doing business and in cases such as this involving bankruptcy. Litigation is further described in Note K - "Uncertainties". After consultation with legal counsel, management is unable to determine the financial impact to the District at this time and resolution may have a material adverse effect on the District's future financial position and results from operations or cash flows.

TULARE REGIONAL MEDICAL CENTER

NOTE J - FAIR VALUE OF ASSETS AND LIABILITIES

The District adopted Statement of Financial Accounting standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 fair value establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: Unobservable inputs for the assets or liabilities that are supported by little or no market activity and that are significant to the fair value of the underlying assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the District's statements of financial position, as well as the classification pursuant to the valuation hierarchy.

Financial Instruments: Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 instruments include a variety of financial instruments as listed below. There are no Level 2 or Level 3 types within the balance sheet of the District. The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with FAS 157 as of June 30, 2018:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Short term investments	\$ 2,957,038	\$ 2,957,038		
U.S. Government securities	<u>1,406,007</u>	<u>1,406,007</u>	_____	_____
Totals of financial instruments	<u>\$ 4,363,045</u>	<u>\$ 4,363,045</u>	=====	=====

Notes to Financial Statements (continued)

TULARE REGIONAL MEDICAL CENTER

NOTE J - FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with FAS 157 as of June 30, 2017:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Corporate securities	\$ 2,287,536	\$ 2,287,536		
U.S. Government securities	<u>1,411,728</u>	<u>1,411,728</u>		
Totals of financial instruments	<u>\$ 3,699,264</u>	<u>\$ 3,699,264</u>	_____	_____

NOTE K - UNCERTAINTIES

Bankruptcy: On September 30, 2017 the District filed a Chapter 9 proceeding and, as of the date of these financial statements, that proceeding is pending in the United States Bankruptcy Court for the Eastern District of California. Subsequent to year end, the District was successful in working out a long term arrangement with Adventist Health whereby healthcare services were re-started and the hospital was re-opened in October, 2018. Adventist Health has applied for its own acute hospital license and when this is issued Adventist Health will formally become the lessee of the District's hospital facility. The change in ownership is expected to occur in the early part of 2019.

As to the Chapter 9 proceedings, the District has obtained a claims bar date and has done a great deal of the preliminary work needed to be done to propose a Disclosure Statement and Plan. It is expected that the Disclosure Statement and Plan will be circulated for review and comment toward the end of the first quarter of 2019 and that the finalized versions will be filed during the second quarter of 2019. It is anticipated that the Chapter 9 Plan would then be confirmed by the Court late in the second quarter or during the early part of the third quarter of 2019. The financial statements do not include adjustments to reflect future effects on the recoverability and classification of assets or the amounts and classification of liabilities that resulted from the District's hospital closure.

District Attorney Investigation: The Office of the District Attorney, County of Tulare, is in process of conducting an investigation into various matters regarding the District and its former management team. As of the date of this report it is not possible to disclose what material outcome, if any, the results of this investigation might have on the financial position and presentation of the financial statements of the District as of June 30, 2018 and 2017.

TULARE REGIONAL MEDICAL CENTER

NOTE K - UNCERTAINTIES (continued)

Property and Equipment: As part of the transactions with Adventist Health -Tulare, the District will be selling substantially all of its moveable equipment to Adventist Health - Tulare sometime in the very near future. In preparation for this sale, a reconciliation of the equipment inventory is in process. This preliminary work has raised certain issues regarding the District's equipment records. As a result, it is uncertain as to what financial impact the findings of this forthcoming inventory reconciliation will have upon the District's financial statements as of June 30, 2018 and 2017. It is anticipated that the sale of these assets to Adventist Health - Tulare is planned to take place in the Spring of 2019.

Liabilities: The District has recorded various liabilities as of the date of the Bankruptcy September 30, 2017 and previous, along with those incurred after September 30, 2017, both of which are reflected in the financial statements as of June 30, 2018 and 2017. As a part of the bankruptcy proceedings, District creditors have submitted their claims as to how much they believe to be owed by the District. These claims are in process of being analyzed and substantiated for the Bankruptcy Plan of Adjustment (the Plan), as well as other procedures to validate other claims by the District's creditors. As a result, it is too soon to determine the impact on the financial statements as of June 30, 2018 and 2017 until these reconciling procedures can be completed. It has not been determined how much funding will be available to pay towards those claims. Management believes, however, that the District's estimates, in these financial statements, of what is owed to creditors as of June 30, 2018 are fairly consistent with the amount of claims that have been filed by those creditors.

Pending Litigation: The District is currently involved in several lawsuits related to hospital operations, contracts, agreements and other matters. As of the date of these financial statements, management believes that any potential future impact to the District, as a result of these actions, have been reflected in the District's financial statements, however, until the cases are settled, it isn't possible to determine what impact these actions will have on the financial statements as of June 30, 2018 and 2017.

Some of these cases were subsequently settled after June 30, 2018. In November, 2018, the District's Board of Directors entered into a settlement agreement HCCA as more fully described in Note L. This settlement removed and satisfied all claims made by and between the District and HCCA. The District also entered into other various settlements subsequent to year end as described in Note L. Management feels that the financial statements as of June 30, 2018 and 2017 have fairly accounted for the financial impact of these settlements, as well as others.

TULARE REGIONAL MEDICAL CENTER

NOTE L - SUBSEQUENT EVENTS

At the June 27, 2018 District board meeting, the District's Board of Directors heard presentations from two healthcare systems interested in entering into a long-term relationship with the District with the goal that the chosen applicant would operate and eventually lease the District's hospital facilities. The District's Board selected Adventist Health System West (Adventist) as its partner to accomplish these goals. Starting in July, 2018, the Adventist team commenced working with the District's Board, the District's interim management consultants - Wipfli LLP Consultants, the District's general legal counsel, the District's bankruptcy counsel, District staff, and community members living in the District in order to re-open the hospital and once again begin health care services for the community.

At a special District board meeting held on August 1, 2018, the Board of Directors unanimously adopted the following transactions through Board resolutions:

Lease Agreement - A lease agreement between the District and Adventist whereby an Adventist affiliate would lease the real property commonly known as the Tulare Regional Medical Center (Hospital), and other properties operated under the license associated with the Hospital, and operate the Hospital as a general acute care healthcare facility for a period of five years with a "Guarantee and Memorandum of Lease". These agreements were subsequently signed on February 12, 2019.

Asset Purchase Agreement - An "Agreement for the Purchase and Sale of Assets" by and among the District and the Adventist affiliate whereby the District would sell and the Adventist affiliate would purchase assets associated with and affixed to the Hospital, and other properties operated under the Hospital license.

Credit Agreement - A "Debtor-in-Possession Credit Agreement" by and between the District and an Adventist affiliate whereby the District would borrow and Adventist would lend up to \$10 million for the District to use to re-open the Hospital by October 28, 2018.

Security Agreement - A "Security Agreement and Chattel Mortgage" by and between the District and an Adventist affiliate whereby the District would pledge collateral in the form of title to the assets which are subject to the Agreement for the Purchase and Sale of Assets between the District and the Adventist which are recorded on the records of the District.

Rent Assignments - A "Short Form Deed of Trust and Assignment of Rents" by and between the District and an Adventist Health affiliate whereby the District would provide Adventist with a secured interest in specified real property and assign the rents of such property to Adventist.

TULARE REGIONAL MEDICAL CENTER

NOTE L - SUBSEQUENT EVENTS (continued)

Management Agreement - An "Interim Management Services Agreement" by and between the District and an Adventist affiliate whereby Adventist would provide the District management services related to the Hospital from the date that the District reinstates the Hospital license to operate through the aforementioned lease and other related agreements.

Other significant events which occurred subsequent to year end are as follows:

Hospital Re-opening - The Hospital's license was reinstated in early October, 2018, and the Hospital was re-opened for healthcare services effective October 15, 2018. Adventist then assumed operational management, along with the financial risk, of the operations of the Hospital at that time, and will continue to do so until a long-term lease agreement is executed.

Long-Term Lease - On November 6, 2018, District voters approved, by almost an 89% margin, for the District to enter into a long-term lease agreement with Adventist. Terms of the lease are for 5.5 years, with renewal options available to Adventist that could eventually extend to an overall combined term of 30 years.

Change of Ownership - Adventist will be filing an application for a "Change of Operational Ownership (CHOW)" with the California Department of Public Health (CDPH) in either February, 2019, or early March, 2019 to change the business ownership to a new corporation - Adventist Health - Tulare. It is anticipated that this CHOW will be approved by the CDPH in the early Spring of 2019, at which time Adventist will assume full operational control and responsibility of the Hospital's activities, and that the District will serve as the landlord of the Hospital properties. The District will continue to operate various non-Hospital related operations.

Settlements - In November, 2018, the District's Board of Directors entered into a settlement agreement and general release of claims with Healthcare Conglomerate Associates LLC, Medflow PC, Tulare Asset Management LLC, Vi Healthcare Finance, Inc. and Yorai "Benny" Benzeevi, M.D. (collectively HCCA). This settlement removed and satisfied all claims made by and between the District and HCCA. The District also entered into other various settlements subsequent to year end with the Celtic Leasing Corporation, Dr. Kumar, the TRMC Medical Executive Committee, Maxim and Specialty Lab, along with several taxpayer lawsuits. These settlements were necessary in order for the District to move forward with its future operational activities. Management feels that these financial statements have recorded sufficient amounts which will fairly account for these settlements.

Notes to Financial Statements (continued)

TULARE REGIONAL MEDICAL CENTER

NOTE L - SUBSEQUENT EVENTS (continued)

Legislative Audit - On October 9, 2018, the California State Auditor Office (Auditor) issued its findings of an audit conducted by their office over previous months, in which the Auditor reviewed the activities of the District and its oversight of the Hospital and of HCCA. The findings and recommendations of this report are included in a publicly available report on the Auditor's website. The results of the audit did not financially affect the financial statements of the District as of June 30, 2018.

Future Funding - Future funding of the operations of the District requires the District to seek additional financing from outside lenders in order to facilitate payments of administrative claims incurred related to the management of the District, the bankruptcy proceedings, to make certain settlement payments entered into by the District, and to provide operating capital for the ongoing operations of the District as well as completion of certain projects. In early February, 2019, the District obtained a \$9 million line of credit from the City of Tulare for some of these aforementioned purposes.

Management evaluated the effects of other subsequent events on the financial statements through February 21, 2019, the date the financial statements are issued, and determined that there are no other material subsequent events that have not been disclosed.

Tulare District Hospital
P & L
Three Year Comparison

	June 30, 2016 <u>Balance</u>	June 30, 2017 <u>Balance</u>	June 30, 2018 <u>Balance</u>
Net patient revenues	(76,277,171)	(38,751,788)	(12,158,299)
Other Operating Income	<u>(3,960,892)</u>	<u>(2,504,376)</u>	<u>(2,091,433)</u>
Total operating income	(80,238,063)	(41,256,164)	(14,249,732)
Salaries & wages	0	0	1,532,445
Employee Benefits	0	0	376,663
Professional fees	6,594,120	5,452,130	7,067,894
Professional fees, physicians	5,182,458	6,301,287	2,220,974
Supplies	9,988,172	8,834,964	3,019,596
Purchased services	10,762,242	11,414,565	6,552,368
Purchased services, HCCA	36,822,456	39,993,336	13,701,647
Repairs and maintenance	345,953	472,582	284,243
Utilities and phone	1,559,182	1,560,939	1,259,004
Rents and leases	803,356	637,746	501,662
Insurance	814,735	1,270,010	1,046,816
Depreciation/Amortization	3,607,430	3,567,312	3,381,815
Other expenses	<u>1,369,830</u>	<u>2,588,775</u>	<u>1,513,907</u>
Total operating expenses	<u>77,849,934</u>	<u>82,093,646</u>	<u>42,459,034</u>
(Income) loss from operations	(2,388,129)	40,837,482	28,209,302
District taxes	(7,186,334)	(7,669,915)	(9,270,758)
Investment gains and losses	(145,709)	(122,769)	(80,127)
Interest expense	771,434	6,863,174	6,781,466
Grants and contributions	<u>(769,770)</u>	<u>(1,297,985)</u>	<u>0</u>
Total non operating (revenues)/expenses	(7,330,379)	(2,227,495)	(2,569,419)
Net decrease in net position	(9,718,508)	38,609,987	25,639,883
Net position at the beginning of the year	<u>(82,648,359)</u>	<u>(92,366,867)</u>	<u>(53,756,880)</u>
Net position at the end of the year	<u>(92,366,867)</u>	<u>(53,756,880)</u>	<u>(28,116,997)</u>

Tulare District Hospital
Balance Sheet Summary
Three-Year Comparison

	June 30, 2016	June 30, 2017	June 30, 2018
Cash & cash equivalents	11,404,419	2,087,760	2,970,088
Assets limited as to use - current	6,044,283	3,772,670	4,504,186
Patient accounts receivable	11,094,457	5,635,763	1,161,845
Other receivables	8,289,604	342,837	346,792
Estimated third party payor settlements	15,366,476	1,509,205	3,770,728
Inventories	1,206,592	1,160,861	387,635
Prepaid assets & deposits	<u>789,846</u>	<u>568,828</u>	<u>449,744</u>
	54,195,677	15,077,924	13,591,018
Assets limited as to use	5,498,311	7,521,748	7,449,346
PP&E	159,919,263	161,997,074	156,059,564
Note receivable	<u>264,478</u>	<u>0</u>	<u>0</u>
Total assets	219,877,729	184,596,746	177,099,928
Deferred Outflows	<u>585,183</u>	<u>433,274</u>	<u>315,823</u>
Totals	<u>220,462,912</u>	<u>185,030,020</u>	<u>177,415,751</u>
Current maturities	(2,082,684)	(1,648,287)	(1,979,000)
Accounts payable	(24,808,705)	(32,211,909)	(45,965,195)
Accrued payroll	(2,756,903)	0	(110,070)
Estimated third party payor settlements	<u>(150,000)</u>	<u>(34,319)</u>	<u>(5,924,488)</u>
	(29,798,292)	(33,894,515)	(53,978,753)
Long term debt	<u>(98,297,753)</u>	<u>(97,378,625)</u>	<u>(95,320,001)</u>
Total Liabilities	(128,096,045)	(131,273,140)	(149,298,754)
Invested fund balance	(59,538,826)	(62,970,162)	(58,760,563)
Restricted fund balance	(11,542,594)	(10,614,359)	(11,953,532)
Unrestricted fund balance	<u>(21,285,447)</u>	<u>19,827,641</u>	<u>42,597,098</u>
	(92,366,867)	(53,756,880)	(28,116,997)
Total liabilities and net position	<u>(220,462,912)</u>	<u>(185,030,020)</u>	<u>(177,415,751)</u>

I ULARE LOCAL HEALTH CARE DISTRICT

Summary of Accounts Payables as of February 22, 2019

TLHCD	Status:	0-30	31-60	61-90	91-120	+121	Grand Total
Before 9/30/17						27,760,487.06	27,760,487.06
After 9/30/17		211,028.27	67.14	31,889.80	13,415.16	5,109,374.04	5,365,774.41
Grand Total		211,028.27	67.14	31,889.80	13,415.16	32,869,861.10	33,126,261.47

Note: The A/P amounts will be revised at such time that the Bankruptcy Claims are finalized.

Tulare Local Health Care District dba Tulare Regional Medical Center
CASH RECEIPTS AND DISBURSEMENTS

Updated: 2/22/2019

Totals from

CASH IN	11/23	11/30	12/7	12/14	12/21	12/28	1/4	1/11	1/18	1/25	2/1	2/8	2/15	2/22	Totals from 12/01/17
Receipts	46,542	104,935	100,707	70,725	74,347	89,248	97,820	78,042	169,799	188,315	119,816	105,553	163,686	125,580	5,088,218
Receipts Received for AH	(31,700)	(30,424)	(104,148)	(32,184)	(424,035)	(16,576)	(95,744)	(99,881)	(153,375)	(78,668)	(146,509)	(176,968)	(147,876)	(174,588)	(1,729,618)
DSH Payment	0	0	0	0	375,244	0	0	0	0	0	0	0	0	131,698	(47,615)
Property Taxes	6,842	2,850	2,516	1,532	886,958	0	0	241,347	9,702	0	13,070	11,841	27,759	0	3,017,893
Property Rentals and Evolutions	0	0	0	0	36,319	5,579	26,250	34,130	0	0	0	0	0	0	589,339
Short Term Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Line of Credit - City of Tulare	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Supplemental - AB 113 & 915	0	0	0	0	0	0	0	0	0	0	0	0	0	4,861,885	(10,352)
Paid by TLHCD To be Reimbursed by AH	41,346	0	64,695	0	41,983	0	0	22,020	44,603	0	2,306	0	3,089	9,785	2,322,001
Supplemental - HQAF, Etc.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	242,567
Payments Excluded from AH LOC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,248,087
Other Extraordinary Receipts	0	0	2,290	0	82,692	0	0	0	0	0	0	0	0	0	(961,645)
Adventist Health Line of Credit	0	0	0	0	0	0	0	0	0	0	189,164	0	0	0	588,315
Total Cash In	63,030	77,360	66,060	40,073	1,073,508	78,252	28,327	275,658	70,729	109,648	177,846	(59,575)	46,658	4,402,711	9,627,814
EXPENSES															26,836,888
Revenue Bonds	0	0	103,179	0	0	0	103,179	0	0	0	103,179	0	0	100,000	1,028,612
Payroll & Related Expenses	13,657	21,263	14,063	0	23,000	0	15,254	0	15,575	0	17,453	0	15,680	0	4,418,052
Insurance	0	14,992	67,546	28,758	11,441	0	73,789	4,677	14,992	0	67,546	26,607	0	0	1,849,320
Utilities/Phone/Internet	0	5,890	6,678	0	11,441	0	2,602	9,828	14,527	2,733	1,386	4,780	1,514	14,097	1,430,450
Legal/ Bankruptcy Counsel	0	71,707	0	396	131,996	0	1,275	73,636	393,385	0	0	0	85,406	54,442	2,111,698
Consulting & Purchased Services	0	200,104	91	0	216,502	0	7,161	8,369	4,337	184,789	1,803	13,830	0	2,375,358	5,945,622
Software Fees	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Supplies - Medical	0	29,435	5,908	5,149	7,605	0	651	5,566	2,827	4,558	1,979	1,187	0	1,022	139,437
Leases and Rentals	0	5,622	3,153	6,338	6,555	0	692	6,138	731	573	6,353	6,081	85	504	848,654
IGT Advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	245,143
Third Party Payments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	443,483
Other	2,949	56,014	1,864	9,687	21,352	15	48,013	9,837	13,043	5,822	28,584	26,955	505,680	1,810,203	48,026
Expense Catch-up After 09/30/17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Assumed Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Start-up Repairs (Gross) Including I/T &	0	0	0	0	0	0	0	0	0	0	0	0	0	0	245,461
Misc. & Minor Repairs	0	15,626	19,404	3,708	27,797	0	2,653	27,300	11,086	45,480	0	6,000	9,656	100,000	149,935
Total Expense	16,606	420,653	221,887	54,037	461,240	15	255,271	145,350	470,503	243,956	228,283	85,440	618,021	4,464,950	2,372,163
Difference	46,424	(343,293)	(155,826)	(13,963)	612,268	78,237	(226,944)	130,307	(399,774)	(134,308)	(50,437)	(145,015)	(571,363)	(62,239)	832,159
Cash Balance Forward	2,114,508	1,771,215	1,615,389	1,601,426	2,213,694	2,291,931	2,064,988	2,195,295	1,795,521	1,661,213	1,610,777	1,465,761	894,399	832,159	

NOTE 1: \$784,664 of Build America Bonds funds were received by the District in February, 2018 and again in July, 2018, and another \$748,427.77 was received in January, 2019, and all were directly paid to the Tulare County Tax Assessor. These have been removed from this report as these are not District funds.

NOTE 2: Included in these amounts are \$349,000 waiting to be transferred to Adventist Health to cover final estimated payroll and start-up costs and \$35,000 for Valuation service costs.

NOTE 3: Adventist Health will be reimbursing the District for agreed up Start-Up Repairs and Valuation costs totalling \$151,363.

NOTE 4: Certain Re-Classes have been made from these accounts to more accurately reflect major expenditures below.