

Audited Financial Statements

**COALINGA REGIONAL
MEDICAL CENTER**

June 30, 2020

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

Audited Financial Statements

COALINGA REGIONAL MEDICAL CENTER

June 30, 2020

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Management's Discussion and Analysis

COALINGA REGIONAL MEDICAL CENTER

June 30, 2020

The management of the Coalinga Regional Medical Center (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, 2020 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, 2020 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets decreased by \$1,852,630 from the prior fiscal year.
- Total cash and cash equivalents for operations increased by \$1,109,468 over the prior year. Restricted cash and cash equivalents decreased by \$1,175,597 over the prior year.
- Net patient accounts receivable decreased by \$53,523 due to continued collections on old accounts. There was no new patient billing during the year ended June 30, 2020 due to closure of hospital operations in 2018.
- Current liabilities decreased by \$116,749 from the prior fiscal year.
- The District realized a \$1,720,919 increase in net position from bankruptcy forgiveness of debt.
- The increase in net position was \$598,750 for 2020. The prior year had a decrease of \$(3,603,924).

Bankruptcy and the Future of Coalinga Regional Medical Center

On September 7, 2018, the District filed a voluntary petition for relief under Chapter 9 of Title 11 of the United States Code (the Bankruptcy Code). As noted in the financial summary above, the District had incurred financial setbacks and negative cash flows from hospital operations and was unable to meet certain of its obligations. As a result, these conditions raised substantial doubt about the District's ability to continue hospital operations in the future and therefore the decision was made to close its hospital operations and file for bankruptcy relief.

Currently the District is leasing the hospital facilities to American Management Group of Modesto (AAMG) who is beginning to operate the hospital once again under the name of Coalinga Medical Center, LLC. The District is also pursuing other possible remedies for health care operations with the Coalinga area and remains optimistic about the future of health care delivery within its boundaries.

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership

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Report of Independent Auditors

The Board of Directors
Coalinga Regional Medical Center
Coalinga, California

We have audited the accompanying financial statements of the Coalinga Regional Medical Center, a health care district (the District) which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 the footnotes, on September 7, 2018, the District filed a voluntary petition for relief under Chapter 9 of Title 11 of the United States Code (the Bankruptcy Code). The District in previous years had incurred negative cash flows from hospital operations and was unable to meet certain of its obligations. These conditions raised substantial doubt about the District's ability to continue hospital operations in the future and as a result, the District closed its hospital operations in the fall of 2018. Although certain adjustments have been made to these financial statements as a result of the bankruptcy proceedings, the financial statements do not include all adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the bankruptcy proceedings.

Opinion

In our opinion, except for the matters discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the District at June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

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

JWT & Associates, LLP

Fresno, California
March 30, 2021

Statements of Net Position

COALINGA REGIONAL MEDICAL CENTER

	June 30	
	<u>2020</u>	<u>2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,362,594	\$ 253,126
Assets limited as to use, available for current obligations	487,990	487,710
Patient accounts receivable, net of allowances	37,514	91,037
Other receivables	7,799	151,755
Estimated third party payor settlements		379,531
Prepaid expenses and deposits	<u>9,681</u>	<u>11,048</u>
Total current assets	1,905,578	1,374,207
Assets limited as to use, less available for current obligations	246,130	1,422,007
Capital assets, net of accumulated depreciation	<u>4,712,623</u>	<u>5,826,363</u>
	6,864,331	8,685,144
Deferred outflows of resources	<u>1,208,995</u>	<u>1,303,379</u>
	<u><u>\$ 8,073,326</u></u>	<u><u>\$ 9,925,956</u></u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 292,585	\$ 250,000
Accounts payable and accrued expenses	305,620	521,902
Bankruptcy payables - current portion	185,404	45,894
Accrued payroll and related liabilities	77,101	249,366
Estimated third party payor settlements	<u>89,703</u>	
Total current liabilities	950,413	1,067,162
Bankruptcy payables, less current portion	3,045,699	4,565,622
Debt borrowings, net of current maturities	<u>10,385,292</u>	<u>11,200,000</u>
	14,381,404	16,832,784
Net position		
Invested in capital assets, net of related debt	4,712,623	(5,623,637)
Restricted by bond indenture agreements for debt service	734,120	1,909,717
Unrestricted net position	<u>(11,754,821)</u>	<u>(3,192,908)</u>
Total net position	<u>(6,308,078)</u>	<u>(6,906,828)</u>
Total liabilities and net position	<u><u>\$ 8,073,326</u></u>	<u><u>\$ 9,925,956</u></u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

COALINGA REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Operating revenues		
Net patient service revenue	\$ 168,869	\$ 377,350
Other operating revenue	226,308	232,271
Total operating revenues	<u>395,177</u>	<u>609,621</u>
Operating expenses		
Salaries, wages and employee benefits	97,245	1,878,708
Professional fees	705,519	422,885
Supplies	1,713	4,780
Purchased services	289,450	661,847
Utilities		175,328
Building and equipment rent	4,788	4,921
Insurance	14,939	200,664
Depreciation and amortization	1,144,640	1,219,896
Other operating expenses	<u>11,554</u>	<u>110,045</u>
Total operating expenses	<u>2,269,848</u>	<u>4,679,074</u>
Operating loss	(1,874,671)	(4,069,453)
Nonoperating revenues (expenses)		
District tax revenues	1,424,709	1,332,726
Investment income	12,325	31,895
Interest expense	(621,048)	(899,092)
Loss on sale or disposal of assets	(63,484)	
Debt forgiveness and contributions	<u>1,720,919</u>	
Total net nonoperating revenues	<u>2,473,421</u>	<u>465,529</u>
Excess of revenues over expenses	598,750	(3,603,924)
Net position at beginning of the year	<u>(6,906,828)</u>	<u>(3,302,904)</u>
Net position at end of the year	<u><u>\$ (6,308,078)</u></u>	<u><u>\$ (6,906,828)</u></u>

See accompanying notes and auditor's report

Statements of Cash Flows

COALINGA REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$ 691,896	\$ 1,658,115
Cash received from operations, other than patient services	370,264	224,170
Cash payments to suppliers and contractors	(2,623,291)	(603,559)
Cash payments to employees and benefit programs	<u>(269,510)</u>	<u>(2,038,517)</u>
Net cash (used in) operating activities	(1,830,641)	(759,791)
Cash flows from noncapital financing activities:		
District tax revenues	1,424,709	1,332,726
Debt forgiveness and contributions	<u>1,720,919</u>	<u>1,332,726</u>
Net cash provided by noncapital financing activities	3,145,628	1,332,726
Cash flows from capital and related financing activities:		
Changes in capital and other assets, net of disposals		88,457
Proceeds from debt borrowings	11,109,000	
Principal payments on debt borrowings	(11,881,393)	(486,034)
Interest payments on debt borrowings	<u>(621,048)</u>	<u>(899,092)</u>
Net cash (used in) capital financing activities	(1,393,441)	(1,296,669)
Cash flows from investing activities:		
Net change in assets limited as to use	1,175,597	91,352
Interest and dividends received from investments	<u>12,325</u>	<u>31,895</u>
Net cash provided by investing activities	<u>1,187,922</u>	<u>123,247</u>
Net (decrease) in cash and cash equivalents	1,109,468	(709,341)
Cash and cash equivalents at beginning of year	<u>253,126</u>	<u>962,467</u>
Cash and cash equivalents at end of year	<u>\$ 1,362,594</u>	<u>\$ 253,126</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

COALINGA REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (1,874,671)	\$ (4,069,453)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,144,640	1,219,896
Provision for bad debts	(196,749)	
Changes in operating assets and liabilities:		
Patient accounts receivables	53,793	1,268,847
Other receivables	143,956	(116,955)
Prepaid expenses and deposits	1,367	175,446
Accounts payable and accrued expenses	(1,596,695)	801,465
Accrued payroll and related liabilities	(172,265)	(159,809)
Estimated third party payor settlements	<u>469,234</u>	<u>208,667</u>
Net cash (used in) operating activities	<u><u>\$ (1,830,641)</u></u>	<u><u>\$ (868,645)</u></u>

See accompanying notes and auditor's report

Notes to Financial Statements

COALINGA REGIONAL MEDICAL CENTER

June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Coalinga Regional Medical Center, (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 boundaries of the District to specified terms of office. The District owns a 24-bed acute care hospital, a 50-bed long-term care facility on the hospital's main campus and a 49-bed long-term care facility a short distance from the hospital. Before filing for bankruptcy, the District provided health care services, by way of the operations of the hospital, primarily to individuals who resided in the local geographic area. As more fully described in these footnotes, the District closed their hospital operations in 2018 and is currently leasing the facilities to Coalinga Medical Center, LLC who have reopened the hospital in order to continue to provide health care services to the Coalinga area.

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.

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.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents and Investments: 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, when present, are reported at cost, determined by average costs and replacement values, which are not in excess of market. The District did not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method when the hospital was operating. With the closure of hospital operations, inventory has been discontinued for the fiscal year ended June 30, 2018.

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

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment. As of June 30, 2020 and 2019, the District has determined that no capital assets are significantly impaired at this time.

Compensated Absences: The District'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, 2020 and 2019 were \$72,838 and \$246,865, respectively. Payment of this liability will be determined upon finalization of the bankruptcy plan.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

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. In the case of employee health coverage, the District is self-insured for those claims and is discussed further in the footnotes.

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

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

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets.

Revenue Recognition: As previously stated, net patient service revenues are reported at amounts that reflect the consideration to which the District expects to be entitled in exchange for past patient services. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of third-party payor audits, reviews, and investigations. Generally, the District would bill the patients and third-party payors several days after the patient received healthcare services at the District's hospital. Revenue was recognized as services were rendered.

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

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

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

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.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Adopted Accounting Pronouncements: In January 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments*, which requires an entity to: (1) measure equity investments at fair value through net income, with certain exceptions; (2) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (3) present financial assets and financial liabilities by measurement category and form of financial asset; (4) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (5) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. The update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The adoption of ASU 2016-01 is effective for the District beginning October 1, 2019. As a result of the implementation, unrealized gains and losses in equities and trading debt securities are included in other revenue. Net positions were not affected by the implementation.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfied a performance obligation. In August 2015, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date*, which deferred the effective date of ASU No. 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance found in ASU No. 2014-09, while retaining the related principles for those areas. In May 2016, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*, which provides narrow scope improvements and practical expedients to ASU No. 2014-09.

The District adopted the provisions of ASU No. 2014-09, ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10 and ASU No. 2016-12 using the modified retrospective method applied to all contracts existing as of October 1, 2019. Prior to the adoption of ASU No. 2014-09, a significant portion of the provision and allowance for uncollectible

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

accounts was related to uninsured patients and expected uncollectible deductibles and copayments on accounts which the third-party payors had not yet paid. Under ASU No. 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that represent a direct reduction to net patient service revenues and a corresponding reduction to patient accounts receivable. The adoption of ASU No. 2014-09 also implemented additional disclosure requirements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash-flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are significant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of ASU No. 2016-15 was effective for the District beginning October 1, 2019.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU No. 2016-18 was effective for the District beginning October 1, 2019.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2020 and 2019, the District had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounted to \$1,361,594 and \$252,126, respectively. 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, when present, would generally consist of U.S. Government securities and state and local agency funds invested in U. S. Government securities and would be stated at quoted market values. Changes in market value between years would be reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net assets.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE C - NET PATIENT SERVICE REVENUES

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

	<u>2020</u>	<u>2019</u>
Long-term care daily hospital services	<u> </u>	<u>\$ 16,520</u>
Gross patient service revenues	<u> </u>	<u>16,520</u>
Additions (deductions) from revenue	<u> \$ 168,869</u>	<u> 360,830</u>
Net patient service revenues	<u> \$ 168,869</u>	<u> \$ 377,350</u>

The District has had agreements with third-party payors in the past that provided for payments to the District at amounts different from its established rates, and from which the District is still collecting small amounts of payments each year. A summary of these past payment arrangements with major third-party payors are as follows:

Medicare: Payments for acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates which vary accordingly to a specific patient diagnostic classification systems for both inpatient and outpatient services. Long-term care services are generally paid under a similar prospectively determined rate formula. The District is paid for certain cost reimbursable 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, 2020, cost reports through June 30, 2015, have been audited or otherwise final settled.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal (non managed care) patients were made based on reasonable costs through December 31, 2013. Effective January 1, 2014, the State of California's Medi-Cal program changed inpatient reimbursement to Diagnosis-Related Groups (DRG), similar to the Medicare inpatient payment methodology. Outpatient payments continue to be paid on pre-determined charge screens. The District 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. At June 30, 2020, cost reports through June 30, 2017, have been audited or otherwise final settled. Medi-Cal rural health care clinic services are paid on a PPS rate established by the State from a base-year cost report submitted by the District and audited by the State and are no longer subject to cost reimbursement.

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

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE D - CONCENTRATION OF CREDIT RISK

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000. Although there are deposits that exceed the limit in the District's bank accounts, management believes that the risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss due to concentration of credit risk with regards to investments as the District has no investments in equity funds, closed-end funds, exchange-traded products, or other perceived "at risk" alternatives as of June 30, 2020 and 2019.

Patient Accounts Receivable: When the District was operating the hospital, it would grant credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represented the only concentrated group of credit risk for the District and management did not believe that there was any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consisted of various payors including individuals involved in diverse activities, subject to differing economic conditions and did not represent any concentrated credit risks to the District. Remaining concentration of patient accounts receivable at June 30, 2020 and 2019 is very minimal and is as follows:

	<u>2020</u>	<u>2019</u>
Self pay and other payor types	\$ 37,514	91,037
Net patient accounts receivable before adjustments	37,514	91,037
Less allowances for adjustments	<u></u>	<u></u>
Net patient accounts receivable	<u>\$ 37,514</u>	<u>\$ 91,037</u>

NOTE E - ASSETS LIMITED AS TO USE

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

	<u>2020</u>	<u>2019</u>
Amounts held by the County of Fresno under agreements:		
Cash and cash equivalents	\$ 721,970	\$ 669,530
Amounts held by trustees under bond indenture agreements:		
Cash and cash equivalents	<u>12,150</u>	<u>1,240,187</u>
	734,120	1,909,717
Less amounts available for current obligations	<u>(487,990)</u>	<u>(487,710)</u>
	<u>\$ 246,130</u>	<u>\$ 1,422,007</u>

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE F - CAPITAL ASSETS

Capital assets as of June 30, 2020 and 2019 were comprised of the following:

	<u>Balance at</u> <u>June 30, 2019</u>	<u>Additions</u> <u>& Transfers</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2020</u>
Land and land improvements	\$ 440,029			\$ 440,029
Buildings and improvements	19,967,055			19,967,055
Equipment	<u>15,394,624</u>	_____	<u>(196,194)</u>	<u>15,198,430</u>
Totals at historical cost	35,801,708		(196,194)	35,605,514

Less accumulated depreciation for:

Land and land improvements	(149,622)	(11,469)	(161,091)
Buildings and improvements	(14,934,780)	(638,318)	(15,573,098)
Equipment	<u>(14,890,943)</u>	<u>(400,469)</u>	<u>132,710</u>
Total accumulated depreciation	<u>(29,975,345)</u>	<u>(1,050,256)</u>	<u>132,710</u>
Capital assets, net	<u>\$ 5,826,363</u>	<u>\$ (1,050,256)</u>	<u>\$ (63,484)</u>
			\$ 4,712,623

	<u>Balance at</u> <u>June 30, 2018</u>	<u>Additions</u> <u>& Transfers</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2019</u>
Land and land improvements	\$ 440,029			\$ 440,029
Buildings and improvements	19,967,055			19,967,055
Equipment	<u>15,394,624</u>	_____	_____	<u>15,394,624</u>
Totals at historical cost	35,801,708			35,801,708
Less accumulated depreciation for:				
Land and land improvements	(137,863)	(11,759)	(149,622)	
Buildings and improvements	(14,278,980)	(655,800)	(14,934,780)	
Equipment	<u>(14,338,606)</u>	<u>(552,337)</u>	_____	<u>(14,890,943)</u>
Total accumulated depreciation	<u>(28,755,449)</u>	<u>(1,219,896)</u>	_____	<u>(29,975,345)</u>
Capital assets, net	<u>\$ 7,046,259</u>	<u>\$ (1,219,896)</u>	<u>\$ _____</u>	<u>\$ 5,826,363</u>

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE G - DEBT BORROWINGS

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

	<u>2020</u>	<u>2019</u>
Certificates of Participation, series A 2008; due in semi-annual principal payments through 2043 at various amounts; interest due semi-annually at various low interest rates; collateralized by District assets:	\$ 9,320,000	
Certificates of Participation, series B 2008; due in semi-annual principal payments through 2043 at various amounts; interest due semi-annually at various low interest rates; collateralized by District assets:	2,130,000	
Coalinga Regional Medical Center 2019 Taxable Refunding Revenue Bonds; due in annual principal payments through September 1, 2043; interest due semi-annually at 5.49%; secured by District tax revenues:	\$ 10,677,877	
Various other capital lease obligations and other minor notes	10,677,877	11,450,000
Less current maturities	<u>(292,585)</u>	<u>(250,000)</u>
	<u><u>\$ 10,385,292</u></u>	<u><u>\$ 11,200,000</u></u>

Future principal payments on debt financing for the succeeding years are: \$292,585 in 2021; \$306,831 in 2022; \$325,721 in 2023; \$344,078 in 2024; and \$361,545 in 2025.

In July, 2019 the District issued the Coalinga Regional Medical Center Taxable Refunding Revenue Bonds, Series 2019 (the 2019 Bonds) in the amount of \$11,109,000 for the purpose of defeasing the Coalinga Regional Medical Center Series A Certificates of Participation, 2008 Refunding and Capital Improvement Project (COP A) and the Coalinga Regional Medical Center Series B Certificates of Participation, 2008 Capital Improvement Project. The 2019 Bonds were issued at a cost of issuance of \$273,794 in order to defease \$9,320,000 of the COP A obligation and \$2,130,000 of the COP B obligation, both of which were subsequently placed in an escrow trust account. The 2019 Bonds are the obligation of the District bearing interest at 5.49% and maturing on September 1, 2043. At the option of the District, the 2019 Bonds are subject to redemption prior to maturity, in whole or in part on any date on or after September 1, 2029, from any source other than excess property tax revenues, at a redemption price equal to the principal amount of Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium. The 2019 Bonds are subject to mandatory sinking fund redemption on September 1 in each year, in the amounts specified in Article IV (Redemption of Bonds), Section 4.01 Terms of Redemption within the Indenture of Trust agreement dated July 1, 2019 between Coalinga Regional Medical Center and the U. S. Bank National Association, as Trustee. The indenture agreement provides for certain District covenants that include, among other things, certain restrictions on District transactions.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE H - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2020, the District had \$ -0- recorded as construction-in-progress representing cost capitalized for various remodeling, major repair, or expansion projects on the District's premises. During times of construction, if applicable, interest expense associated with construction debt can be capitalized under accounting regulations. During 2020, no interest was capitalized. Any future commitments related to these projects are considered minor.

Operating Leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2020 and 2019, were \$4,788 and \$4,921, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2020, that have initial or remaining lease terms in excess of one year are not considered material.

Litigation: Other than issues evolving due to the bankruptcy, the District may from time-to-time be involved in other litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that these other matters existing (outside of the bankruptcy issues) as of June 30, 2020 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Medical Malpractice Claims: The District 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 District plans to maintain the coverage by renewing its current policy or by replacing it with equivalent insurance.

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 regulations. The District has designated a Privacy and Security Officer, has evaluated the HIPAA impact on the organization and has complied with all required deadlines.

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.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE I -INVESTMENTS

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

<i>As of June 30, 2020</i>	<u>Fair Value</u>	Investment Maturities in Years		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Investments held by local county	\$ 721,970	\$ 721,970		
Cash equivalents in trust funds	<u>12,150</u>	<u>12,150</u>		
Total investments	<u><u>\$ 734,120</u></u>	<u><u>\$ 734,120</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

<i>As of June 30, 2019</i>	<u>Fair Value</u>	Investment Maturities in Years		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Local agency investment fund	\$ 669,530	\$ 669,530		
U.S. Government treasury notes	<u>1,240,187</u>	<u>1,240,187</u>		
Total investments	<u><u>\$ 1,909,717</u></u>	<u><u>\$ 1,909,717</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally 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 District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

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

COALINGA REGIONAL MEDICAL CENTER

NOTE I -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.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a hospital's investment in a single issuer. A hospital's investment policy generally allows for different concentrations in selected investment portfolios such as government-backed securities, which are deemed to be lower risk.

NOTE J - EMPLOYEES' RETIREMENT PLANS

The District has a 403(b) salary deferral plan available to substantially all of the District's employees. The District's policy is to fund pension costs incurred. The District's contribution (expense) for the plan, which is based on a percentage of the employees' compensation. Contributions were minimal for the year ended June 30, 2020 and \$14,105 during the years ended June 30, 2019. The plan is exempt from ERISA reporting requirements.

NOTE K - BANKRUPTCY AND OTHER MATTERS

Bankruptcy: On September 7, 2018 the District filed a Chapter 9 proceeding in the United States Bankruptcy Court for the Eastern District of California. The District had incurred negative cash flows from their hospital operations and were unable to meet certain of its future obligations. These conditions raised substantial doubt about the District's ability to continue hospital operations in the future and as a result, the District closed its hospital operations in the fall of 2018. Although certain adjustments have been made to these financial statements as a result of the bankruptcy proceedings, the financial statements do not include all adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from further bankruptcy proceedings.

The District is currently undergoing bankruptcy proceedings and is in process of assessing the overall bankruptcy situation from the standpoint of legal matters that will and will not be pursued. Currently there are continuing disputes over creditor claims as well as potential preference and fraudulent conveyance actions. Legal counsel is assisting the District on a wide array of matters and it is still too early in the process to access the outcome of these matters and the financial effect they will have upon the District.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE L - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through March 30, 2021, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.