

Audited Financial Statements
COALINGA REGIONAL
MEDICAL CENTER

June 30, 2017

JWT & Associates, LLP
Certified Public Accountants

Audited Financial Statements

COALINGA REGIONAL MEDICAL CENTER

June 30, 2017

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Management's Discussion and Analysis

COALINGA REGIONAL MEDICAL CENTER

June 30, 2017

The management of the Coalinga Regional Medical Center (the Hospital) has prepared this annual discussion and analysis in order to provide an overview of the Hospital's performance for the fiscal year ended June 30, 2017 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information on the Hospital's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2017 and accompanying notes to the financial statements to enhance one's understanding of the Hospital's financial performance.

Financial Summary

- Total assets decreased by \$2,406,982 from the prior fiscal year.
- Total cash and cash equivalents for operations decreased by \$1,237,962 over the prior year. Restricted cash and cash equivalents increased by \$11,896 over the prior year.
- Net patient accounts receivable increased by \$596,201. Net days in accounts receivable were 49.85 at June 30, 2017 as compared to 35.81 at June 30, 2016.
- Current liabilities increased by \$36,349 from the prior fiscal year.
- Long-term debt borrowings for 2017 were \$71,634 while repayments were \$560,025.
- The decrease in net position was \$(1,961,691) for 2017. The prior year had an increase of \$231,438.

Cash and Investments

For the fiscal year ended June 30, 2017, the Hospital's operating cash and cash equivalents totaled \$1,422,938 as compared to \$2,660,900 in fiscal year 2016. At June 30, 2017, days cash on hand was 24.62 as compared to the prior year of 48.11. The majority of the Hospital's cash is deposited with local banks and in short-term money market accounts to maintain liquidity. The average pay period increased from 37.59 days in 2016 to 49.33 days in 2017.

Management's Discussion and Analysis (continued)

COALINGA REGIONAL MEDICAL CENTER

Current Liabilities

As previously noted, current liabilities of the Hospital increased by \$36,349. The majority of the increase was related to the increase in accounts payable and accrued expenses of \$819,371. There was a decrease in current maturities of debt borrowings of \$6,751. Accrued payroll liabilities decreased by \$24,916 while estimated third party payor settlements decreased by \$751,355.

Capital Assets

During the year, the Hospital reinvested into the facility \$116,978. The components of the additions included certain building improvements and the purchases of certain major moveable equipment. There will continue to be additional purchases in the next fiscal year. Construction-in-progress projects of \$9,445 still existed as of the end of the year. Depreciation expense for the year was \$1,387,457 resulting in an overall net decrease in capital assets of \$1,270,479.

Volumes

- Total acute patient days were 323 for fiscal year 2017 as compared to 521 for the prior year. This decrease was a result of continued changes in service types from inpatient to outpatient and a shortage of physicians. Long-term care days were 27,516 for 2017 as compared to 29,185 for 2016.
- The Emergency Department visits decreased to 8,943 for June 30, 2017 from 9,205 for June 30, 2016.
- Rural health clinic visits were 3,521 as compared to 4,223 for the prior year.
- All x-ray units (including ultrasound, CT and MRI) were at 14,038 as compared to 15,676 for last year.
- Lab units were 62,532 as compared to 69,406 for last year.
- Physical therapy units were at 12,852 as compared to 14,380 for last year.
- RT units were at 2,417 as compared to 2,315 for last year.
- Outpatient visits by physician were at 13,998 as compared to 14,682 for last year.

Management's Discussion and Analysis (continued)

COALINGA REGIONAL MEDICAL CENTER

Gross Patient Revenues

The Hospital charges all its patients equally based on its established pricing structure for the services rendered. The charge master is evaluated on an ongoing basis to ensure that all only allowable charges are billed to comply with Medicare and Medi-cal regulations. Gross patient revenues decreased by \$2,788,753 (9% decrease). Patient care volumes and pricing is what drives gross patient revenues.

Deductions From Revenue

Deductions from revenue are deductions based on the difference between (1) gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal and other third party payors such as Blue Cross, and (2) provisions for bad debts on self-pay financial classes.

Deductions from revenue (as a percentage of gross patient service charges) were 32.63% for fiscal year 2017 as compared to 34.63% for fiscal year 2016. The decrease (or improvement) in deductions from revenue was due mainly to the increase in specific and State supplemental programs, such as Medi-Cal expansion.

Net Patient Service Revenues

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues decreased by \$1,258,607 in fiscal year 2017 over the prior year. This was primarily due to the decreases in volumes as already described.

Operating Expenses

Total operating expenses were \$22,087,468 for fiscal year 2017 as compared to \$21,045,202 for fiscal year 2016. The \$1,042,266 increase was due primarily to reasons listed below:

- A \$394,145 decrease in salaries and wages. Total paid FTE's numbered 177.46 as compared to 186.93 for the previous year.
- A decrease of \$50,958 in employee benefits related to the Hospital's decrease in salaries and wages as mentioned above. Salaries, wages and benefits were \$65,332 per FTE as compared to \$64,403 last year.
- Contract labor costs are significant due to the lack of professional staff available for direct hire.
- A \$1,356,886 increase in variable expenses (professional fees, supplies and purchased services due to certain circumstances in service changes and inflationary factors.

Management’s Discussion and Analysis (continued)

COALINGA REGIONAL MEDICAL CENTER

Economic Factors and Next Fiscal Year’s Budget

The Hospital’s Board approved the fiscal year June 30, 2017 budget at the June, 2018 Board meeting. For fiscal year 2017, the Hospital has budgeted an increase in net position of \$63,279. The increase is due to several assumptions:

- A conservative increase in volumes for fiscal year 2017 was budgeted, even with respect to the decreases in the patient volumes in fiscal year 2017 as compared to fiscal year 2016. The increase in utilization is due to the efforts of management to continue to provide better healthcare within the community.
- Operating expenses are expected to increase at a rate close to the increase in revenues. The nursing shortage will continue to drive up labor and benefits costs as well as registry utilization. The Hospital budgeted for \$23,088,288 in revenues and \$23,025,009 in expenses.

JWT & Associates, LLP

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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 district hospital (the Hospital) which comprise the balance sheets as of June 30, 2017 and 2016, 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 Combined 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 Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the District at June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

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

JW7 & Associates, LLP

Fresno, California
December 9, 2017

Statements of Revenues, Expenses and Changes in Net Position

COALINGA REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
Operating revenues		
Net patient service revenue	\$ 18,999,755	\$ 20,258,362
Other operating revenue	<u>580,051</u>	<u>488,615</u>
Total operating revenues	19,579,806	20,746,977
Operating expenses		
Salaries and wages	8,722,985	9,117,130
Employee benefits	2,870,810	2,921,768
Professional fees	1,400,600	1,088,435
Supplies	1,487,027	1,496,165
Purchased services	4,293,826	3,239,967
Repairs and maintenance	487,253	418,355
Utilities	666,286	697,354
Building and equipment rent	124,877	122,819
Insurance	229,721	142,925
Depreciation and amortization	1,387,457	1,330,474
Other operating expenses	<u>416,626</u>	<u>469,810</u>
Total operating expenses	<u>22,087,468</u>	<u>21,045,202</u>
Operating loss	(2,507,662)	(298,225)
Nonoperating revenues (expenses)		
District tax revenues	1,271,739	1,270,384
Investment income	23,885	20,612
Interest expense	(759,113)	(771,883)
Grants and contributions	<u>9,460</u>	<u>10,550</u>
Total net nonoperating revenues	<u>545,971</u>	<u>529,663</u>
Excess of revenues over expenses	(1,961,691)	231,438
Net position at beginning of the year	<u>5,209,850</u>	<u>4,978,412</u>
Net position at end of the year	<u>\$ 3,248,159</u>	<u>\$ 5,209,850</u>

See accompanying notes and auditor's report

Statements of Cash Flows

COALINGA REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$ 17,269,704	\$ 18,482,867
Cash received from operations, other than patient services	1,346,316	271,573
Cash payments to suppliers and contractors	(8,252,165)	(7,347,469)
Cash payments to employees and benefit programs	<u>(11,618,711)</u>	<u>(12,005,542)</u>
Net cash (used in) operating activities	(1,254,856)	(598,571)
Cash flows from noncapital financing activities:		
District tax revenues	1,271,739	1,270,384
Grants and contributions	<u>9,460</u>	<u>10,550</u>
Net cash provided by noncapital financing activities	1,281,199	1,280,934
Cash flows from capital and related financing activities:		
Changes in capital and other assets, net of disposals	(28,790)	(442,105)
Proceeds from debt borrowings	71,634	197,343
Principal payments on debt borrowings	(560,025)	(525,042)
Interest payments on debt borrowings	<u>(759,113)</u>	<u>(771,883)</u>
Net cash (used in) capital financing activities	(1,276,294)	(1,541,687)
Cash flows from investing activities:		
Net change in assets limited as to use	(11,896)	201,027
Interest and dividends received from investments	<u>23,885</u>	<u>20,612</u>
Net cash provided by investing activities	<u>11,989</u>	<u>221,639</u>
Net (decrease) in cash and cash equivalents	(1,237,962)	(540,407)
Cash and cash equivalents at beginning of year	<u>2,660,900</u>	<u>3,201,307</u>
Cash and cash equivalents at end of year	<u>\$ 1,422,938</u>	<u>\$ 2,660,900</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

COALINGA REGIONAL MEDICAL CENTER

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (2,507,662)	\$ (298,225)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,387,457	1,330,474
Provision for bad debts	378,112	523,241
Changes in operating assets and liabilities:		
Patient accounts receivables	(974,313)	(876,274)
Other receivables	766,265	(1,717,042)
Inventories	13,807	(6,363)
Prepaid expenses and deposits	20,873	(48,414)
Accounts payable and accrued expenses	819,371	383,138
Accrued payroll and related liabilities	(24,916)	33,356
Estimated third party payor settlements	<u>(1,133,850)</u>	<u>77,538</u>
Net cash (used in) operating activities	<u>\$ (1,254,856)</u>	<u>\$ (598,571)</u>

See accompanying notes and auditor's report

Notes to Financial Statements

COALINGA REGIONAL MEDICAL CENTER

June 30, 2017

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Coalinga Regional Medical Center, (the Hospital) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The Hospital is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The Hospital is governed by a five-member Board of Directors, elected from within the district to specified terms of office. The Hospital is located in Coalinga, California and operates a 24-bed acute, 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. The Hospital provides health care services primarily to individuals who reside in the local geographic area.

Basis of Preparation: The accounting policies and financial statements of the Hospital generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents and Investments: The Hospital considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities 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 Hospital manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Inventories: Inventories are consistently reported from year-to-year at cost, determined by average costs and replacement values, which are not in excess of market. The Hospital does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

Assets Limited as to Use: Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. 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 Hospital periodically reviews its capital assets for value impairment. As of June 30, 2017 and 2016, the Hospital has determined that no capital assets are significantly impaired.

Compensated Absences: The Hospital's employees earn paid-time-off (PTO) benefits at varying rates depending on years of service. Benefits can accumulate up to specified maximum levels. Employees are paid for accumulated PTO if they leave either upon termination or retirement. Accrued PTO liabilities as of June 30, 2017 and 2016 were \$391,659 and \$404,523, respectively.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management: The Hospital 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 Hospital 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 Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient 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 Hospital receives approximately 6% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the Hospital's behalf during the year, and are intended to help finance the Hospital's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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 - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2017 and 2016, the Hospital had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounted to \$133,068 and \$472,070, 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 Hospital's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the Hospital's deposits. California law also allows financial institutions to secure Hospital deposits by pledging first trust deed mortgage notes having a value of 150% of the Hospital's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the Hospital.

Investments, 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>2017</u>	<u>2016</u>
Acute care daily hospital services	\$ 343,075	\$ 495,600
Long-term care daily hospital services	8,535,540	9,905,216
Inpatient, outpatient and long-term care ancillary services	9,737,966	10,373,617
Emergency room services and other	<u>9,584,317</u>	<u>10,215,218</u>
Gross patient service revenues	28,200,898	30,989,651
Less deductions from revenue	<u>(9,201,143)</u>	<u>(10,731,289)</u>
Net patient service revenues	<u>\$ 18,999,755</u>	<u>\$ 20,258,362</u>

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

Medicare: Payments for acute care services rendered to Medicare program beneficiaries are 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 Hospital 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, 2017, cost reports through June 30, 2014, 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 Hospital is paid for cost-based inpatient services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. At June 30, 2017, cost reports through June 30, 2015, 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 Hospital 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. There are no deposits that exceed the limit in the District's bank accounts, and furthermore, 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, 2017 and 2016.

The Hospital grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the Hospital and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the Hospital. Concentration of patient accounts receivable at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 1,218,100	\$ 884,994
Medi-Cal	3,836,751	4,271,898
Prison and other third party payors	2,478,438	1,713,873
Self pay, credits and other	<u>395,882</u>	<u>439,472</u>
Gross patient accounts receivable	7,929,171	7,310,237
Less credit balances	(250,756)	(528,023)
Less allowances for contractual adjustments and bad debts	<u>(5,100,000)</u>	<u>(4,800,000)</u>
Net patient accounts receivable	<u>\$ 2,578,415</u>	<u>\$ 1,982,214</u>

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2017 and 2016 were comprised of the following:

	<u>2017</u>	<u>2016</u>
Receivables from government agencies	\$ 1,904,842	\$ 2,496,235
Other various receivables	<u>149,257</u>	<u>324,129</u>
	<u>\$ 2,054,099</u>	<u>\$ 2,820,364</u>

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2017 and 2016 were comprised of the following:

	<u>2017</u>	<u>2016</u>
Amounts held by the County of Fresno under agreements:		
Cash and cash equivalents	\$ 687,038	\$ 670,504
Amounts held by trustees under bond indenture agreements:		
Cash and cash equivalents under Certificates of Participation agreements	1,192,620	1,196,502
Cash and cash equivalents under other designations	<u>18,326</u>	<u>19,082</u>
	1,897,984	1,886,088
Less amounts available for current obligations	<u>(471,787)</u>	<u>(465,789)</u>
	<u>\$ 1,426,197</u>	<u>\$ 1,420,299</u>

NOTE G - EMPLOYEES' RETIREMENT PLANS

The Hospital has a 403(b) salary deferral plan available to substantially all of the Hospital's employees. The Hospital's policy is to fund pension costs incurred. The Hospital's contribution (expense) for the plan, which is based on a percentage of the employees' compensation, was \$175,640 and \$192,734 during the years ended June 30, 2017 and 2016, respectively. The plan is exempt from ERISA reporting requirements.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE H - CAPITAL ASSETS

Capital assets as of June 30, 2017 and 2016 were comprised of the following:

	<u>Balance at June 30, 2016</u>	<u>Additions & Transfers</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
Land and land improvements	\$ 440,029			\$ 440,029
Buildings and improvements	19,956,405	\$ 10,650		19,967,055
Equipment	15,176,323	124,131		15,300,454
Construction-in-progress	<u>9,445</u>	<u> </u>	<u> </u>	<u>9,445</u>
Totals at historical cost	35,582,202	134,781		35,716,983
Less accumulated depreciation for:				
Land and land improvements	(111,971)	(12,946)		(124,917)
Buildings and improvements	(12,830,337)	(741,039)		(13,571,376)
Equipment	<u>(13,079,645)</u>	<u>(651,275)</u>	<u> </u>	<u>(13,730,920)</u>
Total accumulated depreciation	<u>(26,021,953)</u>	<u>(1,405,260)</u>	<u> </u>	<u>(27,427,213)</u>
Capital assets, net	<u>\$ 9,560,249</u>	<u>\$ (1,270,479)</u>	<u>\$ </u>	<u>\$ 8,289,770</u>

	<u>Balance at June 30, 2015</u>	<u>Additions & Transfers</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>
Land and land improvements	\$ 440,029			\$ 440,029
Buildings and improvements	19,917,836	\$ 38,569		19,956,405
Equipment	13,780,528	1,479,5195	\$ (83,400)	15,176,323
Construction-in-progress	<u>1,074,640</u>	<u>(1,065,195)</u>	<u> </u>	<u>9,445</u>
Totals at historical cost	35,213,033	452,569	(83,400)	35,582,202
Less accumulated depreciation for:				
Land and land improvements	(99,024)	(12,947)		(111,971)
Buildings and improvements	(12,057,915)	(772,422)		(12,830,337)
Equipment	<u>(12,607,476)</u>	<u>(545,105)</u>	<u>72,936</u>	<u>(13,079,645)</u>
Total accumulated depreciation	<u>(24,764,415)</u>	<u>(1,330,474)</u>	<u>72,936</u>	<u>(26,021,953)</u>
Capital assets, net	<u>\$ 10,448,618</u>	<u>\$ (877,905)</u>	<u>\$ (10,464)</u>	<u>\$ 9,560,249</u>

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE I - DEBT BORROWINGS

As of June 30, 2017 and 2016, debt borrowings were as follows:

	<u>2017</u>	<u>2016</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 Hospital assets	\$ 9,650,000	\$ 9,805,000
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 Hospital assets	2,265,000	2,325,000
Capital lease obligations due to a capital leasing company; due in monthly installments of \$14,702 through May, 2018; interest charges minimal; collateralized by Hospital assets	161,720	338,141
Capital lease obligation due to a commercial capital company; due in monthly installments of \$9,213 through May, 2019; interest charged at 4.24%; collateralized by Hospital assets	203,164	302,798
Various other capital lease obligations and other minor notes	<u>174,521</u>	<u>171,857</u>
	12,454,405	12,942,796
Less current maturities	<u>(545,582)</u>	<u>(552,333)</u>
	<u>\$ 11,908,823</u>	<u>\$ 12,390,463</u>

Property and equipment that have been capitalized under capital lease obligations are considered minor. Future principal payments on debt financing for the succeeding years are: \$545,582 in 2018; \$375,530 in 2019; \$286,964 in 2020; \$299,355 in 2021; and \$298,463 in 2022.

NOTE J - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2017, the Hospital had \$9,445 recorded as construction-in-progress representing cost capitalized for various remodeling, major repair, or expansion projects on the Hospital's premises. During times of construction, if applicable, interest expense associated with construction debt can be capitalized under accounting regulations. During 2017, no interest was capitalized. Any future commitments related to these projects are considered minor.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE J - COMMITMENTS AND CONTINGENCIES - continued

Operating Leases: The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2017 and 2016, were \$124,877 and \$122,819, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2017, that have initial or remaining lease terms in excess of one year are not considered material.

Litigation: The Hospital may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2017 will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

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

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 Hospital 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 statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE K - INVESTMENTS

The Hospital's investment balances and average maturities were as follows at June 30, 2017 and 2016:

<i>As of June 30, 2017</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Local agency investment fund	\$ 1,306,343	\$ 1,306,343		
Investments held by local county	687,038	687,038		
U.S. Government treasury notes	<u>1,192,620</u>	<u>1,192,620</u>		
Total investments	<u>\$ 3,186,001</u>	<u>\$ 3,186,001</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

<i>As of June 30, 2016</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Local agency investment fund	\$ 2,206,058	\$ 2,206,058		
Investments held by local county	670,504	670,504		
U.S. Government treasury notes	<u>1,196,502</u>	<u>1,196,502</u>		
Total investments	<u>\$ 4,073,064</u>	<u>\$ 4,073,064</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The Hospital's investments are reported at fair value as previously discussed. The Hospital's investment policy allows for various forms of investments generally held with government agencies. Policies generally identify certain provisions which address interest rate risk, credit risk and concentration of credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways a hospital may manage its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for hospital operations. Information about the sensitivity of the fair values of the Hospital's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the Hospital's investments by maturity.

Credit Risk: Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody's Investor Service, Inc. Generally a hospital's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of \$500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

Notes to Financial Statements (continued)

COALINGA REGIONAL MEDICAL CENTER

NOTE K - INVESTMENTS (continued)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), a hospital would not be able to recover the value of its investment or collateral securities that are in the possession of another party. A hospital's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

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 L - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through December 9, 2017, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.