Report of Independent Auditors
and Financial Statements

BEAR VALLEY COMMUNITY HEALTHCARE DISTRICT

June 30, 2020 & 2019

JWT & Associates, LLP
Advisory Assurance Tax

BEAR VALLEY COMMUNITY HEALTHCARE DISTRICT

Audited Financial Statements

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JWT & Associates, LLP

Advisory Assurance Tax

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Report of Independent Auditors

The Board of Directors
Bear Valley Community Healthcare District
Big Bear Lake, California

Report on the Financial Statements

We have audited the accompanying financial statements of Bear Valley Community Healthcare District (the District) as of June 30, 2020 and 2019, 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 the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and in accordance with the State Controller's Minimum Audit Requirements for Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgment, 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 entity'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 entity'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, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

JWT & Associates, LLP

Fresno, California
December 9, 2020

BEAR VALLEY COMMUNITY HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2020

The administration of the Bear Valley Community Healthcare District (the District) prepared the following Management Discussion and Analysis of the financial performance of the District for the fiscal year ended June 30, 2020 (FYE 2020) to accompany the financial statements prepared in accordance with the Governmental Accounting Standards Board Statement Numbers 34, 37 and 38. This discussion and the associated schedules are intended to provide an analysis, explanation, and historical basis of comparison for the reporting of financial results of the District for FYE 2020. The audited financial statements included herewith have been prepared and submitted with an unmodified opinion from the District's independent auditor.

Overview of the Bear Valley Community Healthcare District and its Financial Statements

This annual financial report consists of the audited financial statements included herewith and the associated notes to those statements that describe the District's combined financial position and results of operations for the FYE 2020. The audited financial statements of the District include the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows.

- The statement of net position includes all of the District's assets and liabilities, using the accrual basis of accounting, as well as any indication as to which assets are intended for use to fund future capital asset expenditures or otherwise designated as to use by board of director policy.
- The Statement of Revenues, Expenses, and Changes in Net Position present the results of operating and non-operating activities during the fiscal year and the associated incomes.
- The Statement of Cash Flows reports the net cash provided by operating activities, as well as other sources and uses of cash from investing, non-capital financing activities, and capital and related financing activities.

Financial Highlights

				Change	
	2020	**2019**	**2018**	**2020**	**2019**
Current assets	$ 6,932,236	$ 5,963,589	$ 6,916,234	$ 968,647	$ (952,645)
Current liabilities	9,969,424	5,477,074	2,506,984	4,492,350	2,970,090
Investments	33,942,664	25,298,992	17,668,421	8,643,672	7,630,571
Capital assets, net of depreciation	10,807,759	8,644,372	8,515,004	2,163,387	129,368
Long term debt	2,815,000	2,860,000	2,895,000	(45,000)	(35,000)
Total net position	39,042,608	32,182,080	24,871,960	6,860,528	7,310,120
Excess of revenues over expenses	$ 6,860,528	$ 7,310,120	$ 4,207,978	$ (449,592)	$ 3,102,142

CURRENT ASSETS

Current assets are cash or other assets that could reasonably be expected to be converted into cash in one year. Current assets increased by $968,647 from last year. Net Patient Receivables decreased by $567,036. Cash increased by $1,574,207. The table below also shows another significant increase in Investments.

Current Assets				Change	
	2020	2019	2018	2020	2019
Current assets	**$ 6,932,236**	**$ 5,963,589**	**$ 6,916,234**	**$ 968,647**	**$ (952,645)**
Cash	3,981,146	2,406,940	2,253,824	1,574,207	153,116
Net patient receivables	2,318,898	2,885,934	4,184,582	(567,036)	(1,298,648)
Other Assets	140,340	127,266	148,672	13,074	(21,406)
Assets whose use is limited	-	-	-	-	-
Inventory	178,033	136,982	129,318	41,051	7,664
Prepaid expenses	313,818	406,467	199,838	(92,649)	206,629
Investments	$ 33,942,664	$ 25,298,992	$ 17,668,421	$ 8,643,672	$ 7,630,571

Cash and Investments

The District maintains sufficient cash balances to pay its short-term liabilities. Excess funds are invested with the Local Agency Investment Fund (LAIF) to ensure protection of amounts invested. LAIF is a voluntary fund created by statute in 1977 as an investment alternative for California's local governments and special districts.

During the year, our investments grew by $8,643,672 bringing the total to $33,942,664

For the year ending June 30, 2020, the District's cash and investments increased by $10,217,878. Total days cash on hand increased from 421 to 558. See audited financial statements for additional information.

Cash and Investments

				Change	
	2020	2019	2018	2019	2018
Cash and cash equivalents	$ 3,981,146	$ 2,406,940	$ 2,253,824	$ 1,574,206	$ 153,116
Assets whose use is limited	$ 144,375	$ 144,375	$ 144,375	-	-
Investments	33,942,664	25,298,992	17,668,421	8,643,672	7,630,571
Total cash and investments	$ 38,068,185	$ 27,850,307	$ 20,066,620	$ 10,217,878	$ 7,783,687
Days cash on hand	558	421	311	137	110

Net Patient Accounts Receivables

Net patient accounts receivables at June 30, 2020, as compared to June 30, 2019, were lower by $567,036. Management and staff continue to work with our Accounts Receivable Management company (outsourced Patient Financial Services / Billing functions) to reduce Accounts Receivable and Accounts Receivable Days.

				Change	
	2020	2019	2018	2020	2019
Net patient receivables	2,318,898	2,885,934	4,184,582	(567,036)	(1,298,648)

Inventory

				Change	
	2020	2019	2018	2020	2019
Inventory	$ 178,033	$ 136,982	$ 129,318	$ 41,051	$ 7,664

The inventory at June 30, 2020 was $178,033 compared to $136,982 at June 30, 2019. We have added inventory as we are able to meet the needs of our response to the pandemic. We have also added inventory as we add surgeons to work in our OR.

CAPITAL ASSETS

Capital assets are long term assets such as buildings, improvements and equipment with a purchase cost of $5,000 or more and a useful life greater than one year. Items costing less than $5,000 are expensed as minor equipment.

Capital assets, net of accumulated depreciation, increased $2,163,387 as of June 30, 2020, over the prior year balance.

Capital Assets

				Change	
	2020	2019	2018	2019	2018
Property and equipment	$ 26,433,841	$ 23,219,802	$ 22,123,712	$ 3,214,039	$ 1,096,090
Less: accumulated depreciation	(15,626,082)	(14,575,430)	(13,608,708)	(1,050,652)	(966,722)
	$ 10,807,759	$ 8,644,372	$ 8,515,004	$ 2,163,387	$ 129,368

Capital additions totaled $3,214,039 during FYE 2020. We continue to closely monitor capital expenditures. Notable expenditures in FY 2020 included – purchase of land at Sandalwood, purchase, through a grant, of a van for mobile Dental / RHC, and continued work to repair and maintain our facility.

CURRENT LIABILITIES

Current liabilities are short-term debts due in less than one year. At June 30, 2020, current liabilities increased by $4,492,350. The significant increase is due to COVID-19 funds received but not record on our P & L while we await clarification on how such funds are to be accounted for.

Current Liabilities

				Change	
	2020	2019	2018	2020	2019
Current Liabilities	**$ 9,969,424**	**$ 5,477,074**	**$ 2,506,984**	**$ 4,492,350**	**$ 2,970,090**
Current portion of long term debt	40,000	35,000	35,000	5,000	-
Accounts payable	1,106,890	913,724	1,137,648	193,166	(223,924)
Unearned Income	4,519,952	-	-	4,519,952	-
Accrued compensation	905,115	758,370	684,799	146,745	73,571
Third-party payor settlements	3,397,468	3,769,980	649,537	(372,512)	3,120,443

Accounts Payable

Accounts payable increased by $193,166 with accruing expenses in stocking up on supplies related to preparing for ongoing impacts of the pandemic. Days in Accounts Payable increased from 32.9 to 39.1

Third party settlements

The estimate for third party settlements are lower by $382,512 at June 30, 2020, as compared to the prior year-end. During the year we recorded settlements from prior year Cost Reports.

Both the Medicare and Medi-Cal program administrative procedures preclude final determination of amounts due to/from the District until the cost reports are audited and settled. Administration is of the opinion that no significant adverse adjustment to the recorded settlement amounts will be required upon final settlement.

PATIENT REVENUE AND DEDUCTIONS FROM REVENUE

Under antitrust statues, hospitals are required to charge all patients the same price for a given level of service. Accordingly, the District charges all patients uniformly based on its established charge description master (CDM) pricing structure for the services rendered. In addition, all California hospitals are required to annually file an electronic version of their CDM, also known as the "charge master", with the Office of Statewide Health Planning (OSHPD). The District complies with the OSHPD filing requirement; therefore, an electronic version of the CDM is available from the OSHPD website. As of January 2020, we complied with the requirement to post Charge Master on our WebSite.

Gross patient revenue for FYE 2020 decreased over the previous fiscal year by $3,506,493 or 6.6%. Outpatient Revenue (which includes Emergency Department and Clinics) saw a 5.5% decrease. Emergency Department visits were 8.2% lower than the prior year. Clinic visits were 9.2% lower. We experienced significant decreases in these volumes starting in March and in April, May, and part of June of 2020. We also saw decreased census and revenue in both Inpatient and Skilled Nursing Facility.

Gross Patient Charges

				Change			
	2020	2019	2018	2020		2019	
Gross Patient Charges							
Inpatient	$ 1,325,504	$ 1,818,132	$ 1,860,155	$ (492,627)	-27.1%	$ (42,023)	-2.3%
Outpatient	46,300,075	49,011,430	47,845,388	(2,711,356)	-5.5%	1,166,042	2.4%
Skilled Nursing Facility	2,279,197	2,581,707	3,032,416	(302,510)	-11.7%	(450,709)	-14.9%
Total gross revenue	$ 49,904,776	$ 53,411,269	$ 52,737,959	$ (3,506,493)	-6.6%	$ 673,310	1.3%
Acute Inpatient Census Statistics							
Staffed beds 5							
Patient days	229	345	356	(116)	-33.6%	(11)	-3.1%
Days in the year	366	365	365	1	0.3%	-	0.0%
Average Daily Census	0.6	0.9	1.0	(0.3)	-33.8%	(0.0)	-3.1%
Discharges	84	124	139	(40)	-32.3%	(15)	-10.8%
Average Length of Stay	2.7	2.8	2.6	(0.1)	-3.6%	0.2	7.7%
Swing Inpatient Census Statistics							
Staffed beds 5							
Patient days	270	185	210	85	45.9%	(25)	-11.9%
Days in the year	366	365	365	1	0.3%	-	0.0%
Average Daily Census	0.7	0.5	0.6	0.2	45.5%	(0.1)	-11.9%
Discharges	16	14	13	2	14.3%	1	7.7%
Average Length of Stay	16.9	13.2	16.2	3.7	28.0%	(3.0)	-18.5%
Skilled Nursing Facility Census Statistics							
Staffed beds 21							
Patient days	5,125	5,776	6,802	(651)	-11.3%	(1,026)	-15.1%
Average Daily Census	14.0	15.8	18.6	(1.8)	-11.5%	(2.8)	-15.1%
Discharges	26	13	12	13	100.0%	1	8.3%
Emergency Department Visits	10,879	11,849	11,485	(970)	-8.2%	364	3.2%
Clinic Visits	23,039	25,360	23,820	(2,321)	-9.2%	1,540	6.5%

Deductions from Revenue

A contractual adjustment is the difference between gross charges and a contractually agreed-upon payment rate with third-party payors. Typically, third-party payors are 1) government programs such as Medicare and Medi-Cal; 2) Independent Practice Associations (IPA) such as Heritage Victor Valley Medical Group, which are often referred to as "gatekeeper physicians", and 3) other third-party payors or Preferred Provider Organizations (PPO) networks, which generally include insurance carriers such as Blue Cross, Blue Shield, Health Net, Aetna, etc.

Contractual adjustments are accrual-based on estimates derived from historical reimbursement experience using remittance advices by payor and by type of account (inpatient, outpatient, or clinic), adjusted for known exposures, such as payment denials, and are used to reduce the gross charges to the expected realizable value.

Contractual adjustments as a percentage of gross patient charges, excluding prior year third-party settlement adjustments, were 47.8% for FYE 2020 compared to 48.2% for FYE 2019.

FY 2014 was our first year as a Critical Access Hospital (CAH). We continue to review CAH status and impacts each year.

Additionally, deductions from revenue include other uncompensated care categories such as Charity Care, Administrative Adjustments, Patient Discounts (principally discounts offered to uninsured or private pay patients who do not qualify for financial assistance) and Employee Discounts. Effective January 1, 2007, the California State Assembly passed AB 774, which requires all hospitals in California to follow a specific state-mandated means testing process to determine if a patient qualifies for financial assistance. The charity care can range from a full write-off to a partial write-off of the patient's outstanding balance. Furthermore, OSHPD requires every hospital to file an electronic copy of its financial assistance policy. As of June 30, 2020, the District is in compliance with the financial assistance policy reporting requirement.

Total deductions from revenue, including the provision for bad debts, as a percent of gross patient revenue, was 44.0% for FYE 2020 versus 46.0% for FYE 2019.

	2020	2019	Change 2020
Deductions from Revenue			
Contractual adjustments	$ 23,829,918	$ 25,734,533	$ (1,904,614)
Prior year contractual allowances	(4,048,687)	(4,982,891)	$ 934,204
Charity Care	190,034	179,223	$ 10,811
Administrative	127,530	188,157	$ (60,627)
Patient discount	183,000	154,752	$ 28,248
Employee discount	55,643	69,438	$ (13,795)
Bad Debts	1,619,494	3,247,995	$ (1,628,502)
	$ 21,956,932	$ 24,591,206	
Deductions from Revenue as a percent of gross revenue			
Contractual adjustments	47.8%	48.2%	-0.4%
Prior year contractual allowances	-8.1%	-9.3%	1.2%
Charity Care	0.4%	0.3%	0.0%
Administrative	0.3%	0.4%	-0.1%
Patient discount	0.4%	0.3%	0.1%
Employee discount	0.1%	0.1%	0.0%
Bad Debts	3.2%	6.1%	-2.8%
Total	44.0%	46.0%	-2.0%

Provision for Bad Debts / Allowance for Doubtful Accounts

The provision for bad debts or Allowance for Doubtful Accounts decreased for FYE 2020, as compared to the previous fiscal year. As a percent of gross revenue, bad debts were 3.2% for the current fiscal in comparison to 6.1% for the prior year.

Allowance for Doubtful Accounts

	2020	2019	2018	Change 2020	Change 2019
Bad debt expense	$ 1,619,494	$ 3,247,995	$ 1,958,381	$(1,628,501)	$ 1,289,614
Bad debt expense as a percent of gross revenue	3.2%	6.1%	3.7%	-2.8%	2.4%

Net Patient Revenue

Net patient revenue is the difference between gross patient charges and revenue deductions. For FYE June 30, 2020, net patient services revenues decreased $872,221 or 3.0 lower than the previous fiscal year. Net patient revenue decreased due to decreases in volume in Inpatient, Outpatient (Emergency Room and Clinics revenues), and Skilled Nursing Facility.

Net Patient Revenue

	2020	2019	2018	Change 2019	Change 2018
Net patient service revenue	$ 27,947,842	$ 28,820,063	$ 25,902,805	$ (872,221)	$ 2,917,258
				-3.0%	11.3%

OPERATING EXPENSES

Total operating expenses in FYE 2020 were $26,014,646 as compared to $25,123,685 for FYE 2019 – an increase of 3.5%.

Salaries, Wages, and Benefits (which comprised just over 56% of Total Operating Expenses) increased by 4.1%. We also saw an increase in Purchased Services with additional expenses related to the pandemic.

	2020		2019		2018		Change 2020	Change 2019
Salaries and wages	$ 10,867,245	41.8%	$ 10,501,241	41.8%	$ 9,777,302	40.0%	$ 366,004	$ 723,939
Employee benefits	3,724,864	14.3%	3,518,511	14.0%	3,683,114	15.1%	206,353	(164,603)
Total salaries and benefits	14,592,109	56.1%	14,019,752	55.8%	13,460,416	55.1%	572,357	559,336
Professional fees	2,049,493	7.9%	2,090,419	8.3%	2,014,551	8.2%	(40,926)	75,868
Purchased services	3,898,190	15.0%	4,227,216	16.8%	4,286,052	17.5%	(329,026)	(58,836)
Supplies	1,785,410	6.9%	1,591,264	6.3%	1,649,154	6.8%	194,145	(57,890)
Repairs and maintenance	719,957	2.7%	354,161	1.3%	342,890	1.3%	365,796	11,271
Utilities	476,148	1.8%	526,387	2.1%	501,421	2.1%	(50,239)	24,966
Rentals and leases	195,712	0.8%	136,382	0.5%	270,708	1.1%	59,330	(134,326)
Depreciation and amortization	1,050,652	4.0%	966,722	3.8%	892,298	3.7%	83,930	74,424
Insurance	381,178	1.5%	341,365	1.4%	311,702	1.3%	39,813	29,663
Other operating expenses	865,799	3.3%	870,016	3.5%	699,682	2.9%	(4,218)	170,334
Total Operating Expenses	$ 26,014,646	100%	$ 25,123,685	100%	$ 24,428,874	100%	$ 890,962	$ 694,811
							3.5%	2.8%

Supply Costs

Supply costs as a percentage of gross revenue increased from 3.2% in FYE 2019 to 3.6% in FYE 2020. Management continues to work with our group purchasing organization (GPO), HealthTrust Purchasing Group (HPG), to identify opportunities for supply cost reductions.

				Change	
	2020	2019	2018	2020	2019
Supply costs	$ 1,785,410	$ 1,686,895	$ 1,769,781	$ 98,515	$ (82,886)
Supply costs as a percent of gross revenue	3.6%	3.2%	3.4%	0.4%	-0.2%

FISCAL YEAR 2021 BUDGET AND ECONOMIC FACTORS

The District's Board of Directors approved the Budget for FYE ending June 30, 2021 (FY 2021) at a general board meeting. The financial plan for FYE 2021, compared to projected results during the budget process, included a decrease in Gross Revenue due to volume projects (but no rate increase in charges) and a slight decrease in Net Revenue. Operating Expense is budgeted to increase by 0.9%. The net result is a budgeted Surplus of $3,821,473.

Capital expenditure plans for FY 2021 include continuing work in surgery to repair and replace flooring and upgrade some surgery equipment, replacement and upgrade if Respiratory Therapy equipment, building repairs and upgrades in our Physical Therapy building, switch and server replacement in Information Technology, and ongoing development of Urgent Care.

Current and future favorable operations are helped by the continuation of a parcel tax assessed on property located in the Big Bear Valley area and an allocation of county tax revenue. During FYE 2020, the District received $2,451,636 in such tax revenue. The projected tax revenue for FYE 2021 is $2,450,000.

BUSINESS STRATEGIES

In May 2014, the District converted to Critical Access Hospital (CAH) status. Our Analysis after filing FYE 2019 Cost Report showed a favorable impact of $996,840 for the year from CAH status as compared to payments we would have received as a PPS (Prospective Payment System) Hospital. FY 2018 favorable impact was $1,094,823.

Revenue cycle management and cost containment strategies

Administration is continuing its efforts to improve the revenue cycle process by monitoring provider contract administration, accounts receivable through our Accounts Receivable Management agreement, and working with QHR Health (Management Company) consultants.

Also, administration will continue to work to monitor and lower operating expenses as possible to improve the net operating margin.

Status of Regulatory Requirements

• The District is in compliance with applicable state and federal regulations.
• The facility was reclassified as SPC-2 under HAZUS to comply with Senate Bill (SB) 1953.

Administration is working to meet the SB 1953 deadline under NPC-3 performance levels that requires healthcare institutions to be in compliance by the year 2030. Accordingly, the objective is to identify the full extent of equipment and non-structural items that must meet NPC-3 anchorage requirement. Once a plan is established develop a timetable to ensure compliance with NPC-3 performance level as quickly as possible. We continue to focus on operations to improve cash flow to have funds to pay toward such a costly undertaking.

• On January 1, 2007, Assembly Bill (AB) 774 Charity Care and Discount Payment law was effective. The District implemented and updated its charity and discount payment policy to conform to the requirements of AB 774. Additionally, in 2008 all acute care hospitals were required to file electronically their Charity Care and Discount Payment Policy with OSHPD. The District is in compliance with OSHPD policy.
• Administration reviewed the charge description master (CDM), updated it as necessary, and as required filed the electronic CDM with OSHPD.
• The State of California had proposed a reduction in the Distinct-Part Skilled Nursing Facility (DP/SNF) reimbursement rate to 90% of the 2008-2009 level in AB 97, with a caveat to apply this reduction retroactively with a "clawback" demand for repayment. The Department of Health Care Services (DHCS) did announce in August 2013 that rural DP/SNFs would be exempted from this rate reduction. The clawback provision was eliminated during FYE 2016.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT (HIPAA)

Beginning in 2002, the District began an effort to comply with the Health Insurance Portability and Accountability Act (HIPAA) enacted by the federal government. Required steps to comply with provisions of the Act have been put into place within the periods specified therein. Upgrades to our patient information system have already been installed to meet the security requirements. The information system infrastructure will continue to be reviewed throughout the stages of HIPAA enforcement to ensure continued compliance. The employees of the District continue to be educated in the privacy requirements of the Act. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Moreover, the state of California passed a law requiring additional state requirements regarding patient confidentiality. The District complies with the HIPAA and the new California law.

ELECTRONIC HEALTH RECORD (EHR)

In 2009, the American Recovery and Reinvestment Act (ARRA) was signed into law. The Health Information Technology Economic and Clinical Health (HITECH) Act is part of the ARRA. The HITECH Act created the Medicare and Medicaid (Medi-Cal in California) EHR incentive programs, which will provide incentive payments to eligible professionals and hospitals that adopt and demonstrate Meaningful Use (MU) of certified EHR technology. These incentives are considered to be of high strategic importance by virtually all healthcare organizations in the United States to further the federal government's goal of achieving health care reform and improvement of clinical outcomes for the population. The District implemented its electronic medical records system effective April 1, 2013 and attested that it has achieved MU as of October 2013. We continue to meet the requirements of MU.

ACCOUNTABLE CARE ACT (ACA)

The future of the ACA still seems to be uncertain. National election results and claims to revise or even repeal come on the heels of uncertainty of what will happen with the Healthcare Exchanges in light of likely high increase in premium cost and some carriers no longer being willing to offer coverage in certain locations. Congressional efforts to repeal or repair or replace the ACA have not been successful. Major healthcare reform could have a huge impact on California and Bear Valley Community Healthcare District.

Bear Valley Community Healthcare District

Statements of Net Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 37,923,810	$ 27,705,931
Patient accounts receivable, net of allownaces	2,318,898	2,885,934
Other receivables and physician advances	140,340	177,302
Assets whose use is limited	144,375	144,375
Supplies	178,033	136,982
Prepaid expenses and deposits	313,818	404,994
Total current assets	41,019,274	31,455,518
Capital assets, net of accumulated depreciation	10,807,758	8,644,372
Total assets	$ 51,827,032	$ 40,099,890
Liabilities and Net Position		
Current liabilities		
Current portion of long-term debt	$ 40,000	$ 40,000
Accounts payable and accrued expenses	1,106,889	929,813
Accrued payroll and related liabilities	905,115	781,905
Third-party payor settlements	3,397,468	3,311,092
Deferred revenue	4,519,952	-
Total current liabilities	9,969,424	5,062,810
Long-term debt, less current portion	2,815,000	2,855,000
Total liabilities	12,784,424	7,917,810
Net position		
Invested in capital assets, net of related debt	7,952,758	5,749,372
Unrestricted	31,089,850	26,432,708
Total net position	39,042,608	32,182,080
Total liabilities and net position	$ 51,827,032	$ 40,099,890

See accompanying notes to the financial statements

Bear Valley Community Healthcare District

Statements of Revenues, Expenses and Changes in Net position

For The Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues		
Net patient service revenue	$ 26,813,843	$ 28,820,063
Other operating revenue	4,478,336	2,113,456
Total operating revenues	31,292,179	30,933,519
Operating expenses		
Salaries & wages	11,947,584	11,556,253
Employee benefits	2,644,525	2,463,498
Professional Fees	2,081,288	2,267,800
Purchased services	3,904,618	4,102,377
Supplies	1,928,906	1,686,895
Repairs & maintenance	719,957	354,161
Utilities	526,889	579,035
Rentals and leases	195,712	136,381
Depreciation & amortization	1,050,652	966,722
Insurance	381,178	341,365
Other operating expenses	633,338	669,198
Total operating expenses	26,014,647	25,123,685
Operating income (loss)	5,277,532	5,809,834
Nonoperating revenues (expenses)		
District tax revenues	2,451,636	2,459,050
Capital grants and donations	176,652	90,104
Investment income	549,563	528,347
Interest expense	(90,014)	(91,231)
Total nonoperating revenues (expenses)	3,087,837	2,986,270
Excess of revenues (expenses)	8,365,369	8,796,104
Inter-governmental transfers	(1,504,841)	(1,485,984)
Increase in net position	6,860,528	7,310,120
Net position, beginning of the year	32,182,080	24,871,960
Net position, end of year	$ 39,042,608	$ 32,182,080

See accompanying notes to the financial statements

Bear Valley Community Healthcare District

Statements of Cash Flows

For The Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Cash received from patients and third-party payers	$ 27,467,255	$ 29,659,823
Other receipts	9,035,250	2,085,786
Cash payments to suppliers and contractors	(10,144,685)	(10,334,903)
Cash payments to employees and benefit programs	(14,468,899)	(13,996,216)
Net cash provided by operating activities	11,888,921	7,414,490
Cash flows from non-capital and related financing activities		
District tax revenue	2,451,636	2,459,050
Net cash provided by non-capital and related financing activities	2,451,636	2,459,050
Cash flows from capital and related financing activities		
Purchase of property, plant & equipment	(3,214,038)	(1,096,090)
Capital grants and contributions	176,652	90,104
Payments of long-term debt	(40,000)	(35,000)
Interest paid on capital debt	(90,014)	(91,231)
Net cash used in capital and related financing activities	(3,167,400)	(1,132,217)
Cash flows from investing activities		
Net sale (purchase) of investments	-	855,518
Inter-governmental transfers	(1,504,841)	(1,485,984)
Investment income	549,563	528,347
Net cash used in investing activities	(955,278)	(102,119)
Increase in cash and cash equivalents	10,217,879	8,639,204
Cash and cash equivalents at beginning of year	27,705,931	19,066,727
Cash and cash equivalents at end of year	$ 37,923,810	$ 27,705,931

See accompanying notes to the financial statements

Bear Valley Community Healthcare District

Statements of Cash Flows (continued)

For The Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income	$ 5,277,532	$ 5,809,834
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,050,652	966,722
Changes in operating assets and liabilities		
Patient accounts receivable	567,036	1,298,648
Other receivables	36,962	(27,670)
Supplies	(41,051)	(7,664)
Prepaid expenses	91,176	(206,115)
Accounts payable and accrued expenses	177,076	16,088
Accrued payroll and related expenses	123,210	23,535
Deferred revenue	4,519,952	-
Third-party payor settlements	86,376	(458,888)
Net cash provided by operating activities	$ 11,888,921	$ 7,414,490

See accompanying notes to the financial statements

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: Bear Valley Community Health Care District (the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District operates a hospital, Bear Valley Community Hospital (the Hospital), for the community of Big Bear Lake and the surrounding area. The Hospital is a 30-bed facility that provides general acute and skilled nursing care. As a political subdivision of the State of California, the District is generally not subject to federal or state income taxes.

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.

Financial Statement Presentation: The District applies the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management's discussion and analysis; and the preparation of the statement of cash flows on the direct method. The application of these accounting standards had no impact on the total net position.

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.

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents 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 non-operating 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 collectability 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.

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

Assets Limited as to Use: Assets limited as to use include amounts designated by the Board of Directors for replacement or purchases of capital assets and other specific purposes. Assets limited as to use consist of money market accounts on hand with banking institutions.

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 impaired.

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Compensated Absences: The employees of the District earn paid time off ("PTO") benefits at varying rates. The rate is determined based on their years of service. This PTO benefit can accumulate up to specified maximum levels. Employees may use their accumulated PTO for vacation, holidays and sick leave. Accumulated PTO benefits are paid to an employee upon either termination or retirement. Accrued PTO liabilities as of June 30, 2020, and 2019 are $628,015 and $575,350, respectively.

Risk Management: The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Net Position: Net position (formally net assets) is 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 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 assets that do not meet the definition or criteria of the previous two categories.

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

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

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

District Tax Revenues: The District receives financial support from property taxes. These funds are used to support operations. 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 District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

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

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

***Subsequent events*:** Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

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 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2020 and 2019, the District had deposits invested in various financial institutions in the form of cash and cash equivalents amounting to $38,065,585 and $27,847,507. 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.

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

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 Hospital deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

Investments consist of U.S. Government securities and state and local agency funds invested in U. S. Government securities and are stated at quoted market values. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net assets.

NOTE 3 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs, health maintenance organizations (HMOs), preferred provider organizations (PPOs) and other insurance programs. Patient service revenues from these programs approximate 96% of gross patient service revenues.

The Medicare Program reimburses the District on a cost basis payment system for inpatient and outpatient hospital services. The cost-based reimbursement is determined based on filed Medicare cost reports. Skilled nursing services are reimbursed on a predetermined amount based on the Medicare rates for the services.

The District contracts to provide services to Medi-Cal, HMO and PPO inpatients on negotiated rates. Certain outpatient reimbursement is subject to a schedule of maximum allowable charges for Medi-Cal and to a percentage discount for HMOs and PPOs. The skilled nursing facility (SNF) is reimbursed by the Medi-Cal program on a prospective per diem basis subject to audit by the state. The results of the state audits are incorporated prospectively and are subject to appeal by the provider.

Both the Medicare and Medi-Cal program's administrative procedures preclude final determination of amounts due to the District for services to program patients until after patients' medical records are reviewed and cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. The Medicare and Medi-Cal cost reports are subject to audit and possible adjustment. Management is of the opinion that no significant adverse adjustment to the recorded settlement amounts will be required upon final settlement.

NOTE 3 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS (continued)

Medicare and Medi-Cal revenue accounts for approximately 39% and 33% of the District's net patient revenues for the years ended June 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE 4 - INVESTMENTS

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

2020		Investment Maturities in Years		
	Fair Value	Less than 1	1 to 5	Over 5
Government investment funds	$ 33,942,664	$ 33,942,664	$ -	$ -
Total investments	$ 33,942,664	$ 33,942,664	$ -	$ -

2019		Investment Maturities in Years		
	Fair Value	Less than 1	1 to 5	Over 5
Government investment funds	$ 25,298,992	$ 25,298,992	$ -	$ -
Total investments	$ 25,298,992	$ 25,298,992	$ -	$ -

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally set to mature within a few months to others over 15 years. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk. Currently all investments have a maturity of less than one year.

Interest income, dividends, and both realized and unrealized gains and losses on investments are recorded as investment income. These amounts were $549,563 and $528,347 for the years ended June 30, 2020 and 2019, respectively. Total investment income includes both income from operating cash and cash equivalents and cash and cash equivalents related to assets limited as to use. Debt securities, when present, are recorded at market price or the fair market value as of the date of each balance sheet.

NOTE 4 – INVESTMENTS (continued)

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. The District's exposure to interest rate risk is minimal as 100% of their investments have a maturity of less than one year. 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. The District's investments in such obligations are in government investment funds. The District believes that there is minimal credit risk with these obligations at this time.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's investments are generally held by banks or government agencies. The District believes that there is minimal custodial credit risk with their investments at this time. District management monitors the entities which hold the various investments to ensure they remain in good standing.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investments are held as follows: governmental agencies 100%. The District believes that there is minimal custodial credit risk with their investments at this time. District management monitors the entities which hold the various investments to ensure they remain in good standing.

NOTE 5 - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2020 were comprised of cash held in a Debt Service Reserve Fund as required by the terms of a sale and leaseback agreement entered into by the District in January 2016. Under the agreement the District was initially required to make annual payments into the Debt Service Reserve Fund equal to $1/10^{th}$ of the current annual lease payment. The District established this fund accordingly and at June 30, 2020 the balance totaled $144,375. See Note 9.

NOTE 6 - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there is any credit risk associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2020 and 2019 were as follows:

	2020	2019
Medicare	$ 843,088	$ 822,832
Medi-Cal and Medi-Cal pending	2,548,461	3,063,943
Other third party payors	2,842,165	2,404,272
Self pay and other	1,846,208	2,501,315
Gross patient accounts receivable	8,079,922	8,792,362
Less allowances for contractual adjustments and bad debts	(5,761,024)	(5,906,428)
Net patient accounts receivable	$ 2,318,898	$ 2,885,934

NOTE 7 - OTHER RECEIVABLES

Other receivables as of June 30, 2020 and 2019 were comprised of the following:

	2020	2019
Grants	$ 69,401	$ 63,739
Workers Compensation refund	-	18,718
Physician advance	18,333	43,312
District tax revenue	52,606	50,061
Other	-	1,472
	$ 140,340	$ 177,302

NOTE 8 - CAPITAL ASSETS

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

	Balance at June 30, 2019	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2020
Land and land improvements	$ 570,615	$ 2,490,677	$ -	$ 3,061,292
Buildings and improvements	10,063,005	94,766	-	10,157,771
Equipment	12,365,729	632,684	-	12,998,413
Construction-in-progress	220,454	135,379	(139,468)	216,365
Totals at historical cost	23,219,803	$ 3,353,506	$ (139,468)	26,433,841
Less accumulated depreciation	(14,575,431)	$ (1,050,652)	$ -	(15,626,083)
Capital assets, net	$ 8,644,372			$ 10,807,758

	Balance at June 30, 2018	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2019
Land and land improvements	$ 570,615	$ -	$ -	$ 570,615
Buildings and improvements	9,758,671	304,334	-	10,063,005
Equipment	11,761,910	603,819	-	12,365,729
Construction-in-progress	32,517	187,937	-	220,454
Totals at historical cost	22,123,713	$ 1,096,090	$ -	23,219,803
Less accumulated depreciation	(13,608,709)	$ (966,722)	$ -	(14,575,431)
Capital assets, net	$ 8,515,004			$ 8,644,372

NOTE 9 - DEBT BORROWINGS

Long-term debt at June 30, 2020 and 2019 consists of the following:

	2020	2019
Note payable to the Public Property Financing Corporation of California, original amount of $3,000,000, bearing interest at 3.125%, principal payable annually and interest payable biannually per schedule, maturing in December 2055, secured by property, building and improvements.	$ 2,855,000	$ 2,895,000
Total debt borrowings	2,855,000	2,895,000
Less current maturities	(40,000)	(40,000)
Debt borrowings, net of current maturities	$ 2,815,000	$ 2,855,000

Effective January 1, 2016, the District entered into a sale and leaseback agreement with the United States Department of Agriculture, acting through the Rural Housing Service and the Public Property Financing Corporation of California, for the Brenda Boss Family Resource Center. The Brenda Boss Family Resource Center is a building recently constructed by the District on the District's main hospital campus and was put into service during the fiscal year ended June 30, 2014. In accordance with GAAP, the sale and leaseback agreement will be treated as a financing transaction. The principal amount borrowed totaled $3,000,000, with an annual interest rate of 3.125%. Principal is payable annually on December 1st starting in 2016 and continuing through 2055 per a schedule with payments ranging in amounts from $35,000 to $140,000. Interest is payable biannually on June 1st and December 1st in an amount equal to the current outstanding principal balance multiplied by the annual interest rate of 3.125% and divided by two, for a six-month interest amount. There is no provision for a pre-payment penalty. The District must establish and maintain a Debt Service Reserve Fund throughout the term of the sale and leaseback agreement. The District is required to make annual payments into the Debt Service Reserve Fund equal to 1/10th of the current annual lease payment. The District established this fund and at June 30, 2020 the balance totaled $144,375. Upon completion of the sale and leaseback agreement, ownership and title of the Brenda Boss Building will revert to the District with no encumbrances.

Future principal maturities for debt borrowings for the next five years are: $40,000 in 2021; $40,000 in 2022; $45,000 in 2023; $45,000 in 2024; $45,000 in 2025; and $2,640,000 thereafter.

NOTE 10 - RETIREMENT PLANS

The District has a defined contribution retirement plan covering substantially all of the District's employees. In a defined contribution retirement plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The District contributes to the plan at a rate of two to four percent of eligible compensation, based on the length of the employee's service as defined by the plan. The District's contributions become fully vested after three years of continuous service. The District's pension expense for the plan was $182,716 and $184,994 during the years ended June 30, 2020 and 2019, respectively.

NOTE 11 – INCOME TAXES

The District is a political subdivision of the state of California organized under the Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The Hospital has been determined to be exempt from income taxes under Local Health Care District Law. Accordingly, no provision for income taxes is included in the accompanying financial statements. The District is no longer subject to examination by federal or state authorities for years prior to June 30, 2016, nor has it been notified of any impending examination and no examinations are currently in process.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2020, the District has $216,365 recorded as construction-in-progress which represents cost capitalized for various remodeling, major repair, and expansion projects on the District's premises. No interest was capitalized under FAS 62 during the years ended June 30, 2020 and 2019. Estimated costs to complete current obligated construction-in-progress projects as of June 30, 2020 are approximately $252,000. Costs are to be financed with District reserves and continued District operations.

Operating Leases: The District has operating leases for office space and various medical and office equipment. Rental expense under operating leases was $195,712 and $136,381 for the years ended June 30, 2020 and 2019, respectively. Future minimum lease payments for the succeeding years under operating leases with a remaining term in excess of one year as of June 30, 2020, are as follows: $105,463 in 2021; $65,765 in 2022; $42,035 in 2023; $42,035 in 2024; and $42,035 in 2025.

Litigation: The District 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, 2020, will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

NOTE 12 - COMMITMENTS AND CONTINGENCIES (continued)

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

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management continues to evaluate the impact of this legislation on its operations including future financial commitments that will be required.

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 and reimbursement for patient services, antitrust, anti-kickback and anti-referral by physicians, false claims prohibitions and, in the case of tax-exempt organizations, the requirement of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations, quality of care provided to patients, and handling of controlled substances. Violations of these laws and regulations could result in expulsion from government health care programs with the imposition of significant fines and penalties as well as significant repayments for patient services previously billed.

Laws and regulations concerning government programs, including Medicare, Medicaid and various other programs, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements.

Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines and penalties and exclusion from related programs. The District expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge the District's compliance with these regulations, and it is not possible to determine the effect (if any) such claims or penalties would have upon the District.