

Indian Valley Health Care District

Greenville, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

June 30, 2017 and 2016



K·C·O·E
I·S·O·M

Indian Valley Health Care District

TABLE OF CONTENTS

June 30, 2017 and 2016

	<u>Page Number</u>
Independent Auditors' Report	1
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to the Financial Statements	6

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Indian Valley Health Care District
Greenville, California

We have audited the accompanying financial statements of Indian Valley Health Care District (the District), which comprise the statements of net position as of June 30, 2017 and 2016; 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

The District's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

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

Other Matters – Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KC&J, LLP

March 12, 2018
Chico, California

Indian Valley Health Care District
STATEMENTS OF NET POSITION

June 30	2017	2016
ASSETS		
Current Assets		
Cash	\$ 171,985	\$ 169,469
Property taxes receivable	13,202	12,230
Total Current Assets	185,187	181,699
Assets Limited as to Use		
Friends of Indian Valley Hospital Foundation deposits	4,013	4,013
Capital improvement fund	67,552	67,465
Repair and replacement fund	40,018	40,000
Debt service funds	229,827	228,976
Total Assets Limited as to Use	341,410	340,454
Capital Assets - Net	226,649	232,352
TOTAL ASSETS	753,246	754,505
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	35,000	33,000
Due to third-party payors	26,047	26,047
Accounts payable	379,385	989,197
Refundable rental deposit	3,000	3,000
Accrued interest	30,237	31,076
Total Current Liabilities	473,669	1,082,320
Long-Term Debt		
Net of current maturities	1,094,465	1,128,140
Designated funds held	4,013	4,013
TOTAL LIABILITIES	1,572,147	2,214,473
Net Position (Deficit)		
Net investment in capital assets	(902,816)	(928,788)
Unrestricted net position (deficit)	83,915	(531,180)
Net Position (Deficit)	\$ (818,901)	\$ (1,459,968)

The accompanying notes are an integral part of these financial statements.

Indian Valley Health Care District

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30	2017	2016
Revenues		
Tax revenue	\$ 189,157	\$ 204,097
Interest income	295	95
Other revenue	18,363	18,680
Total Revenues	207,815	222,872
Expenses		
Salaries and employee benefits	8,052	7,141
Supplies	2,358	2,074
Professional fees	13,084	9,046
Depreciation	23,137	28,677
Purchased services	7,572	4,564
Utilities	2,369	2,703
Interest and amortization	74,581	76,517
Insurance	49,650	44,408
Other	10,576	14,675
Total Expenses	191,379	189,805
Operating Income	16,436	33,067
Nonoperating Income		
Gain on debt forgiveness	624,631	-
Excess of Revenues Over Expenses	641,067	33,067
Net Position (Deficit) - Beginning of Year	(1,459,968)	(1,493,035)
Net Position (Deficit) - End of Year	\$ (818,901)	\$ (1,459,968)

The accompanying notes are an integral part of these financial statements.

Indian Valley Health Care District
STATEMENTS OF CASH FLOWS

Years Ended June 30	2017		2016	
CASH FLOWS FROM OPERATING ACTIVITIES				
Property taxes received	\$	188,185	\$	202,807
Interest income		295		95
Payments to suppliers and contractors		(70,790)		(122,840)
Payments to and on behalf of employees		(8,052)		(7,141)
Interest paid on long-term debt		(75,420)		(77,279)
Other receipts		18,363		18,680
NET CASH PROVIDED BY OPERATING ACTIVITIES		52,581		14,322
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of improvements		(17,434)		-
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on long-term debt		(33,000)		(30,000)
Net change in assets held by trustee		369		18,503
NET CASH USED IN FINANCING ACTIVITIES		(32,631)		(11,497)
Net Increase in Cash		2,516		2,825
Cash - Beginning of Year		169,469		166,644
Cash - End of Year	\$	171,985	\$	169,469
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Excess of revenues over expenses	\$	641,067	\$	33,067
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Depreciation		23,137		28,677
Gain on debt forgiveness		(624,631)		-
Changes in:				
Property taxes receivable		(972)		(1,290)
Accounts payable		14,819		(48,370)
Refundable rental deposit		-		3,000
Accrued interest		(839)		(762)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	52,581	\$	14,322

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the financial statements.

Reporting Entity Indian Valley Health Care District (the District) is a political subdivision 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 District owned and operated Indian Valley Hospital (the Hospital) located in Greenville, California, a rural community, until November 2006, at which time the Hospital was closed. Since the District is a political subdivision, it will continue to receive property taxes to support the ongoing operations and to service debt.

Basis of Accounting The District utilizes the proprietary fund method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, established financial reporting requirements for all state and local governments. The District has adopted the financial reporting provisions of GASB Statement No. 34, but has elected not to present management's discussion and analysis (MD&A) that GASB has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash The District considers cash on deposit as cash. The District is authorized to deposit cash and invest excess funds by *California Government Code*, Section 53648 et seq. Cash deposits are demand deposits held in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limit. The District does not have any items that would be considered "cash equivalents" such as money market funds.

Assets Limited as to Use Assets limited as to use include cash set aside by a donor and two custodial accounts held for Friends of Indian Valley Hospital Foundation (Friends), which has an offsetting liability under other liabilities. Assets limited as to use consist of demand deposits, money market deposits in financial institutions, and money market mutual funds.

Indian Valley Health Care District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fair Value Measurements The District accounts for certain assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The District measures some assets for fair value on a recurring basis as described in note 4. The District may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets that are adjusted for the lower of cost or market, such as an inventory valuation.

The District classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement.

Valuations within the hierarchy levels are based upon the following:

- Level 1:* Quoted market prices for identical instruments traded in active exchange markets.
- Level 2:* Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.
- Level 3:* Model-based techniques that use at least one significant assumption not observable in the market.

These unobservable assumptions reflect an organization's estimates of assumptions that market participants would use on pricing an asset or liability. Valuation techniques include management's judgment and estimation which may be significant.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2017 and 2016.

Money Market Mutual Funds: Valued at quoted market prices for identical instruments traded in active exchange markets.

Capital Assets Capital assets are reported at historical 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 is provided over the estimated useful life of the assets. The range of estimated useful lives in years by type of asset is as follows:

Buildings and improvements	20-40
Land improvements	15-20
Equipment	3-7

Indian Valley Health Care District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Property Taxes Property taxes are levied by Plumas County on the District's behalf and are intended to support operations and to service debt. The amount of property tax levied is based on the assessed property values as of the preceding July 1. Property taxes are due in two installments on November 1 and February 1 each year, and are delinquent if not paid by December 10 and April 10, respectively. Approximately 91% and 92% of the financial support in 2017 and 2016 was generated from property taxes of local residents, respectively.

Net Position The District's net position is classified into two components. These components consist of: 1) net investment in capital assets, which consist of capital assets net of accumulated depreciation, plus cash held for capital asset purchases, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets; and, 2) unrestricted, which is the remaining balance of the net position (deficit).

Operating Income and Expenses The statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating income and expenses. Operating revenues include all revenue sources such as property taxes, interest and rental income, and other various amounts. Operating expenses are all expenses incurred to support the District.

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; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from some of these matters. Other coverage is provided through participation in a joint powers agreement.

2. NET PATIENT SERVICE REVENUE

While the District operated the Hospital, it had agreements with third-party payors that provided for payments to the District at amounts different from its established rates. Included in the third-party payors were both Medicare and Medi-Cal programs that paid for both inpatient and outpatient services. Net revenue from these programs was reported at estimated realizable amounts, including estimated retroactive adjustments under reimbursement agreements with the third-party payors. 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. The District believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory actions.

All prior-year Medicare and Medi-Cal reports have been audited. As of June 30, 2017, the District has a liability to Medi-Cal for \$26,047 for prior years' overpayments and no liability or receivable from Medicare.

Indian Valley Health Care District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. OPERATING LEASE

The District leased the medical clinic building to Eastern Plumas Health Care District (lessee). The lease expired on January 31, 2016. Rent payments amounted to \$1,500 each month. After the lease expired, the District immediately leased the medical clinic building to Plumas District Hospital (lessee) starting February 1, 2016. This lease will expire on February 1, 2021. Rent payments amount to \$1,500 each month.

4. CASH AND ASSETS HELD BY TRUSTEES

The District is generally authorized, under state statute and local resolutions, to invest in demand deposits with financial institutions, savings accounts, certificates of deposit, U.S. Treasury securities, federal agency securities, State of California notes or bonds, notes or bonds of agencies within the State of California, obligations guaranteed by the Small Business Administration, bankers' acceptances, commercial paper, and the LAIF.

Cash and assets held by trustees consisted of the following:

June 30	<u>Fair Value</u>	
	<u>2017</u>	<u>2016</u>
Cash		
Deposits (1)	\$ 171,985	\$ 169,469
Assets Held by Trustees		
Deposits (1)	219,651	178,267
Money market mutual funds	121,759	162,187
Subtotals	341,410	340,454
Total Cash and Assets Held by Trustees	\$ 513,395	\$ 509,923

- (1) **Deposits** The carrying amount of restricted deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

Indian Valley Health Care District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Cash and assets held by trustees are reflected on the accompanying statements of net position under the following captions:

June 30		2017		2016
Cash	\$	171,985	\$	169,469
Assets limited as to use		341,410		340,454
Total Cash and Assets Held by Trustees	\$	513,395	\$	509,923

Fair Value Measurements

The District categorizes its money market mutual funds within the fair value hierarchy, as level 1 investments.

Concentration of Credit Risk – Investments

California Government Code, Section 53601, places the following concentration limits on the District's investments:

No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% of the value of the portfolio may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

The District does not have a formal investment policy that limits investment maturities as a means of management of its exposure to fair value losses arising from increasing interest rates. All of the District's investments have maturity dates of less than one year.

Indian Valley Health Care District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. CAPITAL ASSETS

Capital assets consisted of the following:

June 30	Balance 2015	Additions	Retirements	Balance 2016	Additions	Retirements	Balance 2017
Land and improvements	\$ 160,592	\$ -	\$ -	\$ 160,592	\$ -	\$ -	\$ 160,592
Buildings and improvements	728,104	-	-	728,104	17,434	-	745,538
Equipment	158,431	-	-	158,431	-	-	158,431
Subtotals	1,047,127	-	-	1,047,127	17,434	-	1,064,561
Accumulated depreciation	(786,098)	(28,677)	-	(814,775)	(23,137)	-	(837,912)
Capital Assets - Net	\$ 261,029	\$ (28,677)	\$ -	\$ 232,352	\$ (5,703)	\$ -	\$ 226,649

6. LONG-TERM DEBT

Long-term debt consisted of the following:

June 30	Balance 2015	Reductions	Balance 2016	Reductions	Balance 2017	Amounts Due Within One Year
Series 2004 Certificates of Participation	\$ 1,215,000	\$ 30,000	\$ 1,185,000	\$ 33,000	\$ 1,152,000	\$ 35,000
Original issue discount	(25,186)	(1,326)	(23,860)	(1,325)	(22,535)	-
Total Long-Term Debt	\$ 1,189,814	\$ 28,674	\$ 1,161,140	\$ 31,675	\$ 1,129,465	\$ 35,000

Indian Valley Health Care District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The District issued Series 2004 Certificates of Participation (COPs) for capital improvement projects in the aggregate principal amount of \$1,450,000. The COPs were issued pursuant to a trust agreement dated June 1, 2004, by and among the District, the Friends, and U.S. Bank National Association as the trustee. Interest rates range from 5.3% to 6.4% with interest payable on February 1 and August 1 of each year. Principal payments in the form of sinking-fund payments are due semiannually on August 1 and February 1 of each year, commencing August 1, 2005. The Series 2004 COPs are term certificates and mature on August 1, 2014, August 1, 2024, and August 1, 2035, respectively. Principal payments are obligations of the District pursuant to an installment sale agreement by and between the District and the Friends. The payments are secured by a pledge and first lien upon gross tax revenues consisting of the District's allocable portion of the general property taxes collected by Plumas County and, second, by a pledge of any net operating revenues of the District.

Scheduled principal and interest payments on the COPs are as follows:

Years Ending June 30	Principal	Interest	Total
2018	\$ 35,000	\$ 72,050	\$ 107,050
2019	36,000	69,884	105,884
2020	40,000	67,627	107,627
2021	41,000	65,187	106,187
2022	43,000	62,656	105,656
2023-2027	265,000	268,765	533,765
2028-2032	363,000	171,551	534,551
2033-2036	329,000	43,285	372,285
Totals	\$ 1,152,000	\$ 821,005	\$ 1,973,005

7. COMMITMENTS AND CONTINGENCIES

Joint Powers Agreement

The District participates in a joint venture under a joint powers agreement (JPA) with the Program BETA Risk Management Authority (Program BETA). Program BETA was formed for the purpose of providing professional malpractice, general, directors, and officers' liability insurance for certain hospital districts of the Association of California Healthcare Districts, Inc. (ACHD). Program BETA operates as a separate JPA established as a public agency, separate and distinct from ACHD. Program BETA is managed by a board of 13 elected representatives from the members of the JPA. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in Program BETA.

Program BETA offers only claims-made and reported coverage. This type of coverage may require that the District purchase an unlimited extended reporting amendment (tail coverage) if this policy is ever terminated. Upon termination, the District can either purchase prior acts coverage from a new insurer or purchase an unlimited extended reporting amendment from Program BETA to ensure that claims are covered which occur prior to coverage termination, but are reported thereafter. If prior acts or an extended reporting amendment is not purchased when coverage is terminated, a gap in coverage will result. Management believes that any claims that are not covered by the Program BETA will not have a significant effect on the financial statements of the District.

8. CHAPTER 9 BANKRUPTCY AND HOSPITAL CLOSURE

On November 24, 2003, the District filed a voluntary petition for reorganization under Chapter 9 of Title 11 of the Federal Bankruptcy Code. The District was in the process of submitting a plan to the court for satisfaction of certain liabilities. However, in November 2006, the District closed the operations of the Hospital. Subsequent to the closure, many assets were sold or donated. The net realizable value for the assets has not been determined. The Bankruptcy petition was dismissed on September 24, 2012, which means that the District has the same status with their creditors after the dismissal as they had prior to the filing. No plan of adjustment could be presented as the District does not have the ability to pay. The statute of limitations for creditor claims is four years from the date of dismissal. During the fiscal year ended June 30, 2017, the District wrote-off outstanding vendor payables and recognized nonoperating income in the amount of \$624,631, as the statute of limitations was reached in September 2016.

9. SUBSEQUENT EVENT

On February 1, 2018, the District current-refunded the 2004 certificates of participation with refunding revenue bonds. The District issued \$1,271,000 in bonds at an interest rate of 4.22%. The revenue refunding bonds call for mandatory sinking fund redemptions biannually, in varying amounts, beginning August 1, 2018. The bonds mature on August 1, 2035. The District paid issuance costs in the amount of \$84,000, which was paid from the proceeds. The remaining proceeds will be used to repay the outstanding balance due to the California Employment Development Department (EDD) for unemployment compensation paid by the EDD to former District employees.