

**NORTHERN INYO COUNTY LOCAL
HOSPITAL DISTRICT**

Financial Statements

June 30, 2007 and 2006

(With Auditors' Report Thereon)

K.C. MILLER, CPA
Certified Public Accountant

Independent Auditors' Report

The Board of Directors
Northern Inyo County Local Hospital District

We have audited the accompanying balance sheets of Northern Inyo County Local Hospital District, as of June 30, 2007 and 2006, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Inyo County Local Hospital District, as of June 30, 2007 and 2006, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to procedures applied in the audits of the basic financial statements and, in our opinion is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

September 4, 2007

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NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

Balance Sheets

June 30, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 1,341,678	\$ 3,148,845
Short-term investments	12,719,858	6,637,435
Assets limited as to use	1,057,115	603,039
Patient receivables, less allowance for doubtful accounts of \$710,502 and \$526,131, respectively.	7,625,080	6,374,400
Other receivables	207,225	212,005
Inventories	2,077,353	1,897,119
Prepaid expenses	620,550	470,018
Total current assets	<u>25,648,859</u>	<u>19,342,861</u>
Assets limited as to use:		
Internally designated for capital acquisitions	455,329	652,606
Specific purpose assets	482,715	474,914
Revenue bond construction funds held by trustee	11,733,150	17,148,543
	<u>12,671,194</u>	<u>18,276,063</u>
Less amounts required to meet current obligations	1,057,115	603,039
	<u>11,614,079</u>	<u>17,673,024</u>
Long-term investments and partnership	<u>6,128,416</u>	<u>8,676,882</u>
Property and equipment, net of accumulated depreciation and amortization	<u>17,498,027</u>	<u>10,895,169</u>
Bond issuance cost, net of \$78,882 amortization	<u>326,426</u>	<u>344,269</u>
	<u>\$ 61,215,807</u>	<u>\$ 56,932,205</u>

See accompanying notes to financial statements,

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

Balance Sheets

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Current maturities of long-term debt	\$ 270,000	\$ 235,000
Accounts payable	559,389	683,397
Accrued salaries and related cost	2,565,601	2,954,330
Accrued interest and sales tax	168,393	168,166
Deferred income	105,164	97,853
Due to third-party payors	3,219,011	2,864,110
Total current liabilities	<u>6,887,558</u>	<u>7,002,856</u>
Long-term debt, less current maturities	<u>22,586,270</u>	<u>22,881,586</u>
Net assets:		
Unrestricted	31,259,264	26,572,849
Temporarily restricted	482,715	474,914
Total net assets	<u>31,741,979</u>	<u>27,047,763</u>
Commitments and contingencies (Note 8 and 11)	<u>\$ 61,215,807</u>	<u>\$ 56,932,205</u>

See accompanying notes to financial statements,

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Statements of Operations
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 39,469,676	\$ 39,833,991
Other revenue	320,523	259,549
Net assets released from restrictions used for operations	795,740	475,490
Total revenues, gains, and other support	<u>40,585,939</u>	<u>40,569,030</u>
Expenses:		
Nursing services	4,751,785	4,515,827
Other professional services	18,830,837	18,031,394
General services	3,876,231	3,759,324
Fiscal services	2,923,116	2,619,425
Administrative services	3,254,172	3,026,926
Depreciation	1,635,806	1,577,197
Interest	396,519	405,912
Bad debts	1,726,024	1,498,910
Total expenses	<u>37,394,490</u>	<u>35,434,915</u>
Operating income	<u>3,191,449</u>	<u>5,134,115</u>
Other income:		
District tax receipts	519,869	501,790
Interest	906,387	754,054
Contributions	192,649	16,299
Medical office building, net	(196,266)	(234,145)
Other	9,240	46,981
	<u>1,431,879</u>	<u>1,084,979</u>
Excess of revenues over expenses	4,623,328	6,219,094
Net assets released from restrictions used for payment of long-term debt	55,000	25,000
Contributions and interest income	<u>8,087</u>	<u>11,176</u>
	<u>\$ 4,686,415</u>	<u>\$ 6,255,270</u>

See accompanying notes to financial statements,

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Statements of Changes in Net Assets
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 4,623,328	\$ 6,219,094
Net assets released from restrictions used for payment of long-term debt	55,000	25,000
Contributions and interest income	8,087	11,176
	<u>4,686,415</u>	<u>6,255,270</u>
Temporarily restricted net assets:		
District tax allocation	856,638	700,649
Net assets released from restrictions	(850,740)	(500,490)
Interest income	1,903	5,617
Increase in temporarily restricted net assets	<u>7,801</u>	<u>205,776</u>
 Increase in net assets	 4,694,216	 6,461,046
 Net assets, beginning of year	 <u>27,047,763</u>	 <u>20,586,717</u>
 Net assets, end of year	 <u>\$ 31,741,979</u>	 <u>\$ 27,047,763</u>

See accompanying notes to financial statements,

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Statements of Cash Flows
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,694,216	\$ 6,461,046
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	1,628,333	1,583,020
Provision for bad debts	184,371	120,836
Loss from disposal of equipment	4,735	128,657
(Increase) decrease in:		
Patient and other receivables	(1,430,271)	(1,326,875)
Other current assets	(330,766)	(532,280)
Increase (decrease) in:		
Accounts payable and accrued expenses	(505,199)	799,046
Third-party payors	354,901	68,578
Net cash provided by operating activities	<u>4,600,320</u>	<u>7,302,028</u>
Cash flows from investing activities:		
Purchase of property and equipment	(8,243,399)	(3,089,514)
Purchase of investments, net	<u>(3,533,957)</u>	<u>(2,156,677)</u>
Net cash used in investing activities	<u>(11,777,356)</u>	<u>(5,246,191)</u>
Cash flows from financing activities:		
Payments on long-term debt	(235,000)	(416,451)
Increase in long-term debt	-	15,466,586
Increase in bond issuance cost	-	(180,308)
Change in donor-restricted funds, net	<u>5,604,869</u>	<u>(14,986,226)</u>
Net cash used in financing activities	<u>5,369,869</u>	<u>(116,399)</u>
Increase in cash and cash equivalents	(1,807,167)	1,939,438
Cash and cash equivalents, beginning of year	<u>3,148,845</u>	<u>1,209,407</u>
Cash and cash equivalents, end of year	<u>\$ 1,341,678</u>	<u>\$ 3,148,845</u>
Supplemental disclosure:		
Cash paid of interest expense	<u>\$ 987,637</u>	<u>\$ 1,010,051</u>
Cash received from investment income	<u>\$ 1,411,956</u>	<u>\$ 1,162,910</u>

See accompanying notes to financial statements,

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

Notes to Financial Statements

June 30, 2007 and 2006

(1) Description of Organization and Summary of Significant Accounting Policies

Organization

Northern Inyo County Local Hospital District (the Hospital), located in Bishop, California, is a not-for-profit 25 bed critical access hospital. The District was organized in 1946 under the terms of the Local Health Care District Law to promote the public health and the general welfare. The Hospital provides inpatient, outpatient and emergency services for the residents of Bishop, California and its surrounding area. Admitting physicians are primarily practitioners in the local area.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments. The Hospital routinely invests its surplus operating funds in certificates of deposit, the State of California Local Agency Investment Fund and government and agency obligations.

Assets limited as to use

Assets limited as to use primarily include assets held under indenture agreements, assets held to service debt under the bond issue and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Inventories

Inventories are valued generally at the lower of cost (first-in, first-out) or market.

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are recorded at fair market value at the date of donation and are reported as unrestricted support, and are excluded from the excess of revenues over expense, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Temporarily restricted net assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Income Taxes

The District is a political subdivision of the state of California and is exempt from payment of Federal or State income taxes.

Reclassifications

Certain accounts from prior year's financial statements have been reclassified to be comparable with disclosure for the current year.

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements (continued)

(2) Net Patient Service Revenue

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:

- X *Medicare.* Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.
- X *Medi-Cal.* Inpatient and outpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medi-Cal fiscal intermediary.
- X *Other.* The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements is discounts from established charges.

Gross patient service revenue and related provisions for contractual allowances for the years ended June 30 are summarized as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Gross revenue</u>	<u>Contractual allowances</u>	<u>Gross revenue</u>	<u>Contractual allowances</u>
Medicare	\$29,873,142	\$18,165,930	\$31,915,005	\$19,313,435
Medi-Cal	8,801,951	5,801,274	7,695,180	4,077,373
CMSP	2,662,666	1,660,565	2,839,898	1,905,451
Other	<u>26,593,811</u>	<u>2,834,125</u>	<u>25,021,844</u>	<u>2,341,677</u>
	<u>\$ 67,931,570</u>	<u>\$28,461,894</u>	<u>\$67,471,927</u>	<u>\$27,637,936</u>

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements (continued)

(3) Property and Equipment

Property and equipment are summarized as follows:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 891,636	\$ 889,473
Buildings	6,796,482	6,796,482
Hospital equipment	18,540,307	17,592,621
Construction in progress	8,869,195	2,090,996
Less accumulated depreciation	<u>(17,599,593)</u>	<u>(16,474,403)</u>
	<u>\$ 17,498,027</u>	<u>\$10,895,169</u>

Depreciation expense for the years ended June 30, 2007 and 2006 amounted to \$1,635,806 and \$1,577,197, respectively

(4) Health Reimbursement Contracts

Under Medicare, Medi-Cal, and CMSP programs, final settlement for cost reports filed by the District is dependent upon a review by an intermediary. The Medicare, MediCal, and CMSP cost reports have been finalized through 2004, 2003, and 2003, respectively.

Payables to third-party payors are summarized as follows:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Medicare	\$1,252,703	\$1,573,821
Medi-Cal	1,685,043	856,815
CMSP	277,840	430,049
Blue Cross	<u>3,425</u>	<u>3,425</u>
	<u>\$3,219,011</u>	<u>\$2,864,110</u>

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

Notes to Financial Statements (continued)

(5) Investments

Investments, valued at cost which approximates market, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Assets limited as to use:		
Cash and money market accounts	\$ 11,921,149	\$ 16,835,569
FGIC Capital Market, 6.75%, due 2028	575,000	575,000
State of California Local Agency Investment fund	175,045	865,494
	<u>\$ 12,671,194</u>	<u>\$ 18,276,063</u>
Investments:		
Certificate of deposits	\$ 1,078,750	\$ 1,465,970
State of California Local Agency Investment fund	8,382,050	3,038,396
Corporate obligations	-	98,000
Investment in real estate	386,880	369,561
Government and Agency obligations	9,000,594	10,342,090
	<u>18,848,274</u>	<u>15,314,017</u>
Less short-term investments	12,719,858	6,637,435
Long-term investments	<u>\$ 6,128,416</u>	<u>\$ 8,676,582</u>

(6) Long-term Debt

Long-term debt is summarized as follows:

	<u>2007</u>	<u>2006</u>
1980 bond issue, original amount \$550,000, interest at 5%, payable semiannually, principal due in annual installments ranging from \$25,000 to \$35,000 in 2010	\$ 125,000	\$ 155,000
Revenue bonds, series 1998, original amount \$8,000,000, interest ranging between 4.55% to 5.5%, principle due in annual installments ranging from \$160,000 to \$510,000 in 2027, collateralized by a pledge of the Hospital's gross receipts.	7,315,000	7,495,000

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements (continued)

(6) Long-term Debt, continued

	<u>2007</u>	<u>2006</u>
2005 Series A General Obligation Bonds, original amount \$15,035,000, plus premium average interest at 5.12%, payable semiannually, principal due in annual installments ranging from \$25,000 in 2006 to \$1,790,000 in 2035	15,416,270	15,466,586
	22,856,270	23,116,586
Less current maturities	270,000	235,000
	\$ 22,586,270	\$ 22,881,586

The Election 1965, Series B General Obligation Bond is issued under the provisions of the State of California known as "The Local Hospital District Law," and is payable exclusively out of taxes levied upon property in the District. The Bond is subject to the regulations of the Farmers Home Administration and the laws of the State of California.

The Series 1998 Bonds are issued and secured by an Indenture of Trust in accordance with the provisions of The Local Health Care District Law of the State of California. Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The revenue note indenture also requires that the Hospital satisfy certain measures of financial performance.

The Election 2005 General Obligation Bonds are issued pursuant to Chapter 4 of Division 23 of the California Health and Safety Code and the provisions of resolutions of the Board of Directors of the District and are payable exclusively out of taxes levied upon property in the District. The bonds were issued with a net original issue premium of \$431,586, net of \$25,316 amortization, being amortized over the life of the bond issue.

Schedule principal payments of bonds payable are as follows:

2008	270,000
2009	305,000
2010	390,000
2011	435,000
2012	330,000
Thereafter	21,126,270

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements (continued)

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2007</u>	<u>2006</u>
Bond and interest redemption	\$ 473,766	\$ 466,577
Children's care	3,031	2,793
Medical education	75	75
Nursing education	<u>5,843</u>	<u>5,469</u>
	<u>\$ 482,715</u>	<u>\$ 474,914</u>

(8) Medical Malpractice Claims

The Hospital purchases professional and general liability insurance to cover medical malpractice claims up to \$5,000,000 per occurrence. In addition, the District maintains excess coverage of \$15,000,000 per occurrence. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital retains legal counsel, who in conjunction with the insurance carrier, evaluates each claim and acts accordingly.

The District is involved in various lawsuits that arose in the normal course of its business. In the opinion of management, based upon the opinion of legal counsel, liabilities, if any, arising from these proceedings would not exceed the \$25,000 deductible for malpractice insurance and therefore, would not have a material adverse effect on the District's financial statements.

Malpractice expense for the fiscal years ended June 30, 2007 and 2006 was \$203,609 and \$189,396 respectively.

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

Notes to Financial Statements (continued)

(9) Pension Plan

The Hospital has a defined benefit pension plan covering substantially all employees. The plan benefits are based on years of service and the employees' highest three consecutive years of compensation. Contributions are intended to provide not only benefits attributed to date, but, also for those expected to be earned in the future.

The following table sets forth the changes in benefit obligations and changes in plan assets as of January 1:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 16,322,132	\$ 13,734,582
Actuarial benefit accumulations	2,003,557	1,725,306
Interest cost	1,183,355	1,098,767
Change in actuarial assumptions	-	1,140,407
Benefits paid	(499,365)	(1,376,930)
Benefit obligation, end of year	<u>\$ 19,009,679</u>	<u>\$ 16,322,132</u>
Change in plan assets:		
Fair value of assets, beginning of year	\$ 21,237,610	\$ 20,305,277
Employer contribution	1,590,000	1,218,000
Investment income	1,239,143	1,123,422
Experience adjustment	(59,589)	(805)
Benefits paid	(499,365)	(1,376,930)
Other	(32,405)	(31,354)
Fair value of assets, end of year	<u>\$ 23,475,394</u>	<u>\$ 21,237,610</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.25% for both years ended 2007 and 2006.

Contributions to the pension fund were \$1,590,000 and \$1,218,000 for the fiscal years ended June 30, 2007 and 2006, respectively. The Hospital's policy is to fund the pension plan at a level of 125% of the accumulated benefit obligations.

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements (continued)

(10) Concentrations of Credit Risks

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors at June 30 was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	43%	47%
Medicaid, including CMSP	17	14
Other third-party payors	37	36
Self pay	<u>3</u>	<u>3</u>
	<u>100%</u>	<u>100%</u>

(11) Commitments and Contingencies

Sick Leave

The Hospital accrues all leave time for employees as Paid Time Off and this amount is accrued in the financial statements. In addition, employees hired prior to January 1, 2003, may have accumulated additional sick leave for major medical health problems. Usage of the additional sick leave must be approved by management. The total potential liability to the District for major medical is approximately \$1,168,707 and \$1,251,734 for the years ended June 30, 2007 and 2006, respectively. As the potential cost for major medical is not a vested benefit, no provision for the District's liability has been reflected in the accompanying financial statements.

Seismic Regulations

The State of California has passed legislation requiring hospitals to perform structural evaluations of their buildings by 2001 and upgrade facilities to meet certain minimum seismic standards by 2008. In regard to these requirements, the Hospital has started a major construction project which will comply with all seismic standards.

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements, (continued)

(11) Commitments and Contingencies, continued

Construction has begun on the first two buildings. The first of the two buildings is a support building which will house Lab, Laundry, Maintenance, and Purchasing. The second building will be the imaging center housing the Radiology modalities. Neither of these two buildings are considered "hospital" buildings and do not carry the same stringent seismic requirements that the Hospital building does. These two buildings will be substantially complete at the end of calendar year 2007 and will be fully occupied by the first quarter of 2008. Construction of the "hospital" building will then begin. Plans for the Hospital building have been submitted to the Office of Statewide Health Planning and Development for approval and are under review.

The Hospital building is expected to be completed in late 2010 and will contain all of the patient care areas including Nursing, Surgery, Emergency Room, ICU, and Labor and Delivery. Estimated construction cost of \$42 million will be paid from the bond issuance and working capital.

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel and insurance carriers, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

(12) Health and Workman Compensation Insurance

The Hospital is insured for workers' compensation insurance through programs governed by Joint Powers Agreements (the Program) with other district hospitals. The Hospital's share of the Program's deficit, which according to the Joint Powers Agreement may be assessed the hospital by the fund administrators, is \$286,797, as of June 30, 2007.

Management is of the opinion that the fund administrators will assess the Hospital for the deficit; therefore, the Hospital's total estimated share of the deficit is recorded as part of accrued salaries, wages and benefits on the balance sheet.

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT
Notes to Financial Statements, (concluded)

(13) Fair Value of Financial Instruments

Fair value estimates are made at a specific point in time and are based on relevant market information and information about financial instruments; they are subjective in nature and involve uncertainties, matters of judgment and, therefore, cannot be determined with precision. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Hospital's entire holding of a particular instrument. Changes in assumptions could significantly affect the estimates.

Since the fair value is estimated at June 30, 2007, the amounts that will actually be realized or paid at settlement of the instruments could be significantly different.

The carrying value of cash and cash equivalents is assumed to be the fair value because of the liquidity of these instruments. Accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The recorded balance of long-term-debt is assumed to be the fair value since the rates specified in the notes approximate current market values.

(14) Risks and Uncertainties

The Hospital's future operating results may be affected by a number of factors. The Hospital's operations are in part dependent on government reimbursement plans. Significant changes in the level of government reimbursement could have a favorable or unfavorable impact on the operating results of the Hospital. Also, as additional managed healthcare plans are introduced into the service area, actual admissions to the Hospital could increase or decrease depending on the Hospital's ability to contract with health plans.

**Supplementary
Information**

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

Years ended June 30

Bed Complement

<u>Service</u>	<u>2007</u>	<u>2006</u>
Medical/Surgical	11	16
Prenatal/Obstetrics	6	6
Pediatric	4	4
Intensive Care	4	6
Total licensed bed capacity	<u>25</u>	<u>32</u>

Utilization

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Licensed Beds	25	32	32	32	32
Patient Days	3522	3710	3536	3279	2,956
Discharges	1141	1197	1122	1048	952
Occupancy	39%	32%	30%	28%	25%
Average Stay (days)	3.00	3.10	3.15	3.13	3.1
Emergency Room Visits	6667	7296	6872	7360	6,762
Outpatient Visits	37619	38164	35758	32895	32,358

Medical Staff

<u>Medical Staff</u>	<u>2007</u>	<u>2006</u>
Active	43	43
Consulting	13	13
Honorary	2	2
AHP	5	5
Total practioners	<u>63</u>	<u>63</u>

Employees

<u>Employees</u>	<u>2007</u>	<u>2006</u>
Full-time	220	215
Part-time and Per Diem	106	129
Total employees	<u>326</u>	<u>344</u>
Full-time Equivalents	<u>251.39</u>	<u>251.77</u>

See accompanying independent auditors' report

NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

Years ended June 30

Sources of Patient Service Revenue

<u>Payor</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	43%	47%	44%	46%	43%
Medi-Cal	13%	11%	12%	11%	11%
Insurance, HMO and PPO	37%	36%	38%	38%	40%
Indigent	4%	3%	3%	3%	3%
All other	3%	3%	3%	2%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Debt Service Coverage

<u>Description</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>(000's omitted)</i>				
Excess of revenue (expenses)	\$ 4,686	\$ 6,255	\$ 3,257	\$ 1,507	\$ 1,152
Add:					
Depreciation and amortization expense	1,628	1,583	1,747	1,843	1,557
Interest expense	1,178	1,010	589	507	466
Available to meet debt service	<u>\$ 7,492</u>	<u>\$ 8,848</u>	<u>\$ 5,593</u>	<u>\$ 3,857</u>	<u>\$ 3,175</u>
Actual debt service:					
General obligation bonds	37	33	\$ 35	\$ 35	\$ 37
1998 revenue bonds	562	559	567	567	407
2005 General obligation bonds	813	599			
	<u>1,412</u>	<u>1,191</u>	<u>\$ 602</u>	<u>\$ 602</u>	<u>\$ 444</u>
Historical debt service coverage ratio	<u>5.31</u>	<u>7.43</u>	<u>9.29</u>	<u>6.41</u>	<u>7.15</u>
Maximum annual debt service	<u>\$ 1,865</u>	<u>\$ 1,865</u>	<u>\$ 607</u>	<u>\$ 607</u>	<u>\$ 607</u>
Pro forma debt service coverage	<u>4.02</u>	<u>4.74</u>	<u>9.21</u>	<u>6.35</u>	<u>5.23</u>

See accompanying independent auditors' report