

**NORTHERN INYO COUNTY LOCAL  
HOSPITAL DISTRICT**

**Financial Statements**

**June 30, 2009 and 2008**

*(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, 2009 and 2008, 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, 2009 and 2008, 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 11, 2009

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**NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT**  
**Balance Sheets**  
**June 30, 2009 and 2008**

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 881,651	\$ 2,434,216
Short-term investments	29,519,296	15,199,287
Assets limited as to use	11,178,347	1,990,242
Patient receivables, less allowance for doubtful accounts of \$516,985 and \$853,044, respectively.	7,591,694	8,273,347
Other receivables	867,583	571,376
Inventories	2,456,265	2,177,577
Prepaid expenses	1,057,280	602,850
Total current assets	<u>53,552,116</u>	<u>31,248,895</u>
Assets limited as to use:		
Internally designated for capital acquisitions	657,814	558,237
Specific purpose assets	564,033	520,160
Bond construction funds held by trustee	11,228,217	2,724,041
	<u>12,450,064</u>	<u>3,802,438</u>
Less amounts required to meet current obligations	11,178,347	1,990,242
	<u>1,271,717</u>	<u>1,812,196</u>
Long-term investments and partnership	<u>1,061,824</u>	<u>9,266,999</u>
Property and equipment, net of accumulated depreciation and amortization	<u>35,316,271</u>	<u>29,541,929</u>
Bond issuance cost, net of \$80,207 amortization	<u>687,964</u>	<u>308,583</u>
	<u>\$ 91,889,892</u>	<u>\$ 72,178,602</u>

*See accompanying notes to financial statements,*

**NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT**  
**Balance Sheets**  
**June 30, 2009 and 2008**

<i>Liabilities and Net Assets</i>	<u>2009</u>	<u>2008</u>
Current liabilities:		
Current maturities of long-term debt	\$ 1,103,540	\$ 683,626
Accounts payable	1,523,287	1,140,966
Accrued salaries and related cost	2,807,675	2,600,516
Accrued interest and sales tax	247,663	172,391
Deferred income	48,991	-
Due to third-party payors	2,940,963	3,940,301
Total current liabilities	<u>8,672,119</u>	<u>8,537,800</u>
 Long-term debt, less current maturities	 <u>40,105,973</u>	 <u>25,662,000</u>
 Net assets:		
Unrestricted	42,547,767	37,458,642
Temporarily restricted	564,033	520,160
Total net assets	<u>43,111,800</u>	<u>37,978,802</u>
 Commitments and contingencies (Note 8 and 11)		
	 <u>\$ 91,889,892</u>	 <u>\$ 72,178,602</u>

*See accompanying notes to financial statements,*

**NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT**  
**Statements of Operations**  
**Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 49,697,796	\$ 45,619,816
Other revenue	428,093	331,983
Net assets released from restrictions used for operations	<u>857,543</u>	<u>786,490</u>
Total revenues, gains, and other support	<u>50,983,432</u>	<u>46,738,289</u>
Expenses:		
Nursing services	5,661,452	5,276,581
Other professional services	22,267,171	20,415,031
General services	6,235,527	5,810,324
Fiscal services	2,796,295	2,167,132
Administrative services	5,110,968	4,142,548
Depreciation	2,646,680	2,177,176
Interest	1,321,609	494,959
Bad debts	<u>1,622,261</u>	<u>1,711,338</u>
Total expenses	<u>47,661,963</u>	<u>42,195,089</u>
Operating income	<u>3,321,469</u>	<u>4,543,200</u>
Other income:		
District tax receipts	571,808	525,995
Interest	987,092	982,204
Contributions	118,098	115,189
Medical office building, net	(52,424)	(124,767)
Other	<u>104,992</u>	<u>58,339</u>
	<u>1,729,566</u>	<u>1,556,960</u>
Excess of revenues over expenses	5,051,035	6,100,160
Net assets released from restrictions used for payment of long-term debt	30,000	85,500
Contributions and interest income	<u>8,090</u>	<u>13,718</u>
	<u>\$ 5,089,125</u>	<u>\$ 6,199,378</u>

*See accompanying notes to financial statements.*

**NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT**  
**Statements of Changes in Net Assets**  
**Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 5,051,035	\$ 6,100,160
Net assets released from restrictions used for payment of long-term debt	30,000	85,500
Contributions and interest income	8,090	13,718
Increase in unrestricted net assets	5,089,125	6,199,378
Temporarily restricted net assets:		
District tax allocation	936,128	903,638
Net assets released from restrictions	(892,869)	(881,990)
Interest income	614	15,797
Increase in temporarily restricted net assets	43,873	37,445
Increase in net assets	5,132,998	6,236,823
Net assets, beginning of year	37,978,802	31,741,979
Net assets, end of year	\$ 43,111,800	\$ 37,978,802

*See accompanying notes to financial statements,*

**NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT**  
**Statements of Cash Flows**  
**Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,132,998	\$ 6,236,823
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	2,644,032	2,180,553
Provision for bad debts	(336,059)	142,542
Change in deferred revenue	48,991	(105,164)
Loss from disposal of equipment	59,170	33,237
(Increase) decrease in:		
Patient and other receivables	718,079	(1,154,960)
Other current assets	(733,118)	(82,524)
Increase (decrease) in:		
Accounts payable and accrued expenses	664,753	620,490
Third-party payors	(995,913)	721,290
Net cash provided by operating activities	<u>7,202,933</u>	<u>8,592,287</u>
Cash flows from investing activities:		
Purchase of property and equipment	(8,480,192)	(14,254,315)
Purchase of investments, net	(6,114,834)	(5,618,012)
Net cash used in investing activities	<u>(14,595,026)</u>	<u>(19,872,327)</u>
Cash flows from financing activities:		
Payments on long-term debt	(690,842)	(329,896)
Increase in long-term debt	15,578,607	3,833,718
Increase in bond issuance cost	(400,611)	-
Change in donor-restricted funds, net	(8,647,626)	8,868,756
Net cash used in financing activities	<u>5,839,528</u>	<u>12,372,578</u>
Increase in cash and cash equivalents	(1,552,565)	1,092,538
Cash and cash equivalents, beginning of year	<u>2,434,216</u>	<u>1,341,678</u>
Cash and cash equivalents, end of year	<u>\$ 881,651</u>	<u>\$ 2,434,216</u>
Supplemental disclosure:		
Cash paid of interest expense	<u>\$ 1,322,359</u>	<u>\$ 1,281,449</u>
Cash received from investment income	<u>\$ 1,034,215</u>	<u>\$ 1,407,167</u>

*See accompanying notes to financial statements,*

# NORTHERN INYO COUNTY LOCAL HOSPITAL DISTRICT

## Notes to Financial Statements

June 30, 2009 and 2008

(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 Hospital District 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)**

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Hospital to concentrations of credit and market risk consist primarily of cash and cash equivalents. For the year ended June 30, 2009, approximately \$22,100,000 of cash was held by Union Bank of California, considered a high-quality financial institution by management. The Hospital has not experienced any losses on its cash equivalents. It is anticipated that this cash will be used in the short term for Hospital construction.

(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.

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

(2) Net Patient Service Revenue, continued

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

	<u>2009</u>		<u>2008</u>	
	<u>Gross revenue</u>	<u>Contractual allowances</u>	<u>Gross revenue</u>	<u>Contractual allowances</u>
Medicare	\$34,380,805	\$17,640,074	\$33,152,996	\$18,515,835
Medi-Cal	11,503,245	6,641,046	10,591,444	6,074,518
CMSP	2,784,309	1,938,989	3,196,645	2,025,397
Other	<u>31,734,102</u>	<u>4,484,556</u>	<u>29,282,476</u>	<u>3,987,995</u>
	<u>\$ 80,402,461</u>	<u>\$30,704,665</u>	<u>\$76,223,561</u>	<u>\$30,603,745</u>

(3) Property and Equipment

Property and equipment are summarized as follows:

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 987,652	\$ 954,881
Buildings	21,277,129	20,333,313
Hospital equipment	23,257,773	22,670,214
Construction in progress	9,412,246	3,434,323
Less accumulated depreciation	<u>(19,618,529)</u>	<u>(17,850,802)</u>
	<u>\$ 35,316,271</u>	<u>\$29,541,929</u>

Depreciation expense for the years ended June 30, 2009 and 2008 amounted to \$2,646,680 and \$2,177,176, respectively

Property and equipment include certain capitalized leases as follows:

	<u>2008</u>
Hospital equipment	\$3,349,253
Less accumulated depreciation	<u>669,850</u>
	<u>\$2,679,403</u>

Amortization expense on capitalized leases for the both years ended June 30, 2009, totaled \$334,925.

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

(5) Property and equipment, continued

Annual future minimum lease payments under capitalized leases at June 30, 2009 are as follows

	2010	\$	855,304
	2011		855,304
	2012		855,305
	2013		782,803
	2014		373,276
			3,721,992
Total minimum lease payments			3,721,992
Less amount representing interest (4.36% and 4.74%)			334,012
Present value of minimum lease payments			3,387,980
Less current maturity			713,540
			2,674,440

(4) Investments

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

	<u>2009</u>		<u>2008</u>
Assets limited as to use:			
Cash and money market accounts	\$ 11,875,064	\$	3,019,439
FGIC Capital Market, 6.75%, due 2028	575,000		575,000
State of California Local Agency			
Federated Treasury Obligations	-		207,999
	\$ 12,450,064	\$	3,802,438
Investments:			
Money market	21,091,414		
Certificate of deposits	\$ 3,396,000	\$	394,000
State of California Local Agency			
Investment fund	311,780		7,659,907
Corporate obligations	4,820,102		11,070,794
Investment in real estate	961,824		352,360
Government and Agency obligations	-		4,989,225
	30,581,120		24,466,286
Less short-term investments	29,519,296		15,199,287
Long-term investments	\$ 1,061,824	\$	9,266,999

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

(5) Long-term Debt

Long-term debt is summarized as follows:

	<u>2009</u>	<u>2008</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	\$ 65,000	\$ 95,000
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.	6,925,000	7,125,000
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	15,262,337	15,351,804
Election of 2005, Series 2009 General Obligation Bonds, original amount \$15,578,608, including premium, average interest 6.25%, payable semiannually, principal due in annual installments ranging from \$60,000 in 2013 to \$1,572,063 in 2039	15,569,196	
Lease obligations, payable in installments through 2014, interest of 4.74% and 4.36%	3,387,980	3,773,822
	41,209,513	26,345,626
Less current maturities	1,103,540	683,626
	\$ 40,105,973	\$ 25,662,000

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.

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

(5) Long-term Debt, continued

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 \$1,547,659 net of \$66,072 amortization, being amortized over the life of the bond issue.

Schedule principal payments of bonds payable are as follows:

2010	\$ 390,000
2011	435,000
2012	330,000
2013	415,000
2014	510,000
Thereafter	34,259,947

(6) Health Reimbursement Contracts

Under Medicare and Medi-Cal programs, final settlement for cost reports filed by the District is dependent upon a review by an intermediary. The Medicare and MediCal CMSP cost reports have been finalized through 2006.

Payables to third-party payors are summarized as follows:

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Medicare	\$ 685,325	\$1,307,132
Medi-Cal	2,255,638	2,374,937
CMSP	-	<u>258,232</u>
	<u>\$2,940,963</u>	<u>\$3,940,301</u>

**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 30th:

	<u>2009</u>	<u>2008</u>
Bond and interest redemption	\$ 552,801	\$ 506,089
Children's' care	3,139	3,036
Medical education	75	75
Nursing education	8,018	10,960
	\$ 564,033	\$ 520,160

(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 Hospital 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.

Malpractice insurance premiums for the years ended June 30, 2009 and 2008 were \$196,078 and \$214,695, respectively.

(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.

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

(9) Pension Plan, continued

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

	<u>2009</u>	<u>2008</u>
<b>Change in benefit obligation:</b>		
Benefit obligation, beginning of year	\$ 21,569,003	\$ 19,009,679
Actuarial benefit accumulations	2,982,360	2,055,918
Interest cost	1,455,908	1,378,202
Change in actuarial assumptions	-	891,224
Benefits paid	(826,276)	(1,766,020)
Benefit obligation, end of year	<u>\$ 25,180,995</u>	<u>\$ 21,569,003</u>
<b>Change in plan assets:</b>		
Fair value of assets, beginning of year	\$ 25,403,931	\$ 23,475,394
Employer contribution	2,382,000	1,992,000
Investment income	1,739,681	1,601,277
Experience adjustment	(76,334)	135,379
Benefits paid	(826,276)	(1,766,020)
Other	(36,563)	(34,099)
Fair value of assets, end of year	<u>\$ 28,586,439</u>	<u>\$ 25,403,931</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.75% for both years ended 2009.

Contributions to the pension fund were \$2,382,000 and \$1,992,000 for the fiscal years ended June 30, 2008 and 2007, 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>2009</u>	<u>2008</u>
Medicare	42%	43%
Medicaid, including CMSP	18	18
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 \$1,068,731 and \$1,079,433 for the years ended June 30, 2009 and 2008, 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 and upgrade facilities to meet certain minimum seismic standards. In regard to these requirements, the Hospital has started a major construction project which will comply with all seismic standards.

Litigation

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.

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

(11) Commitments and Contingencies, continued

Construction is complete for the first two buildings. The first of the two buildings is a support building which houses Lab, Laundry, Maintenance, and Purchasing. The second building is 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. Construction of the "hospital" building begin during the fiscal year 2009. 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 October 2011 and will contain all of the patient care areas including Nursing, Surgery, Emergency Room, ICU, and Labor and Delivery. Estimated construction cost of \$43 million will be paid from the bond issuance and working capital. Hospital equipment for the new building will cost approximately \$5.21 million, to be financed separately.

(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, 2009, 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.

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

(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>2009</u>	<u>2008</u>
Medical/Surgical	11	11
Prenatal/Obstetrics	6	6
Pediatric	4	4
Intensive Care	4	4
Total licensed bed capacity	<u>25</u>	<u>25</u>

**Utilization**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Licensed Beds	25	25	25	32	32
Patient Days	3,906	4,090	3,522	3,710	3,536
Discharges	1,379	1,303	1,141	1,197	1,122
Occupancy	37%	39%	39%	32%	30%
Average Stay (days)	3.0	3.3	3.0	3.1	3.2
Emergency Room Visits	7,570	7,129	6,667	7,296	6,872
Outpatient Visits	39,371	38,956	37,619	38,164	35,758

**Medical Staff**

<u>Medical Staff</u>	<u>2009</u>	<u>2008</u>
Active	35	41
Consulting	26	16
Honorary	3	7
AHP	1	1
Total practitioners	<u>65</u>	<u>65</u>

**Employees**

<u>Employees</u>	<u>2009</u>	<u>2008</u>
Full-time	255	218
Part-time and Per Diem	104	108
Total employees	<u>359</u>	<u>326</u>
Full-time Equivalents	<u>274.48</u>	<u>263.15</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>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare	42%	43%	43%	47%	44%
Medi-Cal	14%	14%	13%	11%	12%
Insurance, HMO and PPO	37%	36%	37%	36%	38%
Indigent	4%	4%	4%	3%	3%
All other	3%	3%	3%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Bond Debt Service Coverage**

<u>Description</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<i>(000's omitted)</i>				
Excess of revenue (expenses)	\$ 5,089	\$ 6,199	\$ 4,686	\$ 6,255	\$ 3,257
Add:					
Depreciation and amortization expense	2,668	2,181	1,628	1,583	1,747
Interest expense	1,403	1,281	1,178	1,010	589
Available to meet debt service	<u>\$ 9,160</u>	<u>\$ 9,661</u>	<u>\$ 7,492</u>	<u>\$ 8,848</u>	<u>\$ 5,593</u>
Actual debt service:					
General obligation bonds	33	36	37	33	\$ 35
1998 revenue bonds	565	564	562	559	567
2005 General obligation bonds	858	836	813	599	
	<u>1,456</u>	<u>1,436</u>	<u>1,412</u>	<u>1,191</u>	<u>\$ 602</u>
Historical debt service coverage ratio	<u>6.29</u>	<u>6.73</u>	<u>5.31</u>	<u>7.43</u>	<u>9.29</u>

*See accompanying independent auditors' report*