Audited Financial Statements

TEHACHAPI VALLEY HEALTHCARE DISTRICT

June 30, 2023 and 2022

Audited Financial Statements

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June 30, 2023

Management's Discussion and Analysis

TEHACHAPI VALLEY HEALTHCARE DISTRICT

June 30, 2023

The management of the Tehachapi Valley Healthcare District (the District) has prepared this annual discussion and analysis in order to provide an overview of the District's performance for the fiscal year ended June 30, 2023 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments.* The intent of this document is to provide additional information on the District's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2023 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Highlights

- Total assets and deferred outflows decreased by $3,024,479 from the prior fiscal year.
- Total cash and cash equivalents and short-term investments decreased by $458,195 over the prior year.
- There were no new debt borrowings this year. Last year the District refinanced the 2013 series general obligation bonds with a new series 2021 general obligation bonds in the amount of $53,985,000 and in the process paid of the 2013 series which had a carrying value of $48,530,000 at the time the bonds were defeased.
- Current assets increased by $812,335 as current liabilities increased only slightly by $36,312 from the prior fiscal year resulting in a current ratio of 3.78 as of June 30, 2023 as compared to 3.58 as of June 30, 2022.
- Unearned revenues decreased by $900,000 over the prior year according to schedule.
- The current year increase in net position was $784,359 as compared to the prior year of $1,817,240.

Adventist Health Agreements

In November, 2016, the District entered into three separate agreements with Adventist Health (AH) due to the need for an external funding source required to supplement the construction of the new hospital within the boundaries of the District: (1) the Master Lease agreement became effective November 1, 2016 whereby AH leased the District-owned hospital facilities. Monthly rental income amounts $75,000 a month; (2) the Affiliation Agreement allowed District assets and liabilities to be acquired and assumed by AH effective November 1, 2016. As of June 30, 2023 and 2022, the net payable to AH by the District as a result of this agreement is $-0- and $-0-, respectively; (3) The Construction Funding Agreement allowed the District to receive rent advances pursuant to the Master Lease Agreement up to $27,000,000 in order to complete construction of the new hospital. These borrowings from AH are being repaid over time by rent payments due to the District. As of June 30, 2022 and 2021, unearned revenue related to this agreement amounted to $22,878,398 and $23,778,398, respectively.

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership
1111 East Herndon Avenue, Suite 211, Fresno, California 93720
Voice: (559) 431-7708 Fax: (559) 431-7685 Email: rjctcpa@aol.com

Report of Independent Auditors

The Board of Directors
Tehachapi Valley Healthcare District
Tehachapi, California

Opinion

We have audited the accompanying financial statements of the Tehachapi Valley Healthcare District (the District), as of June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provided us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JWT & Associates, LLP

Fresno, California
January 16, 2024

Statements of Net Position

TEHACHAPI VALLEY HEALTHCARE DISTRICT

	June 30 2023	June 30 2022
Assets		
Current assets:		
Cash, cash equivalents	$ 4,762,266	$ 4,095,852
Short-term investments	4,274,159	5,398,768
Assets limited as to use, available for current obligations	2,428,633	2,412,346
Patient accounts receivable, net of allowances		20,290
Other receivables	1,278,200	9,326
Prepaid expenses and deposits	7,598	1,939
Total current assets	12,750,856	11,938,521
Assets limited as to use, less available for current obligations	1,487,655	1,303,008
Capital assets, net of accumulated depreciation	97,368,805	100,402,731
Total assets	111,607,316	113,644,260
Deferred outflows of resources	2,508,279	2,360,300
Total assets and deferred outflows of resources	$114,115,595	$116,004,560
Liabilities and net position		
Current liabilities:		
Current principal maturities of debt borrowings	$ 2,110,000	$ 2,080,000
Accounts payable and accrued expenses	350,548	340,578
Unearned revenue - current portion	900,000	900,000
Accrued payroll and related liabilities	10,904	14,562
Total current liabilities	3,371,452	3,335,140
Unearned revenue, less current portion	21,978,398	22,878,398
Debt borrowings, net of current principal maturities	59,901,727	61,711,363
Total liabilities	85,251,577	87,924,901
Net position (deficit):		
Invested in capital assets, net of related debt	38,473,827	39,427,753
Restricted	3,916,289	3,715,343
Unrestricted (deficit)	(13,526,098)	(15,063,437)
Total net position	28,864,018	28,079,659
Total liabilities and net position	$114,115,595	$116,004,560

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

TEHACHAPI VALLEY HEALTHCARE DISTRICT

	Year Ended June 30	
	2023	2022
Operating revenues		
Net service revenue		$ 1,465,579
Facility rent	$ 930,000	930,000
Other operating revenue	55,845	366,393
Total operating revenues	985,845	2,761,972
Operating expenses		
Salaries, wages and benefits	99,042	205,536
Professional fees	92,336	140,920
Supplies	20,161	5,278
Purchased services	32,456	31,392
Repairs and maintenance	43,980	35,240
Utilities	12,821	11,929
Building and equipment rent	14,835	15,925
Insurance	40,045	62,361
Depreciation and amortization	3,101,335	3,246,446
Other operating expenses	31,296	25,250
Total operating expenses	3,488,307	3,780,277
Operating (loss)	(2,502,462)	(1,018,305)
Nonoperating revenues (expenses)		
District tax revenues for operations	1,135,514	1,092,820
District tax revenues for debt service	4,297,195	4,255,860
Investment income	136,881	16,725
Interest expense	(2,282,769)	(2,529,860)
Total nonoperating revenues (expenses)	3,286,821	2,835,545
Increase in net position	784,359	1,817,240
Net position at beginning of the year	28,079,659	26,262,419
Net position at end of the year	$ 28,864,018	$ 28,079,659

See accompanying notes and auditor's report

Statements of Cash Flows

TEHACHAPI VALLEY HEALTHCARE DISTRICT

	Year Ended June 30	
	2023	2022
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	$ 20,290	$ 1,461,362
Cash changes from operations, other than patient services	(283,029)	1,304,682
Cash payments suppliers and contractors	(283,619)	(1,044,958)
Cash payments to employees and benefit programs	(102,700)	(242,157)
Net cash provided by (used in) operating activities	(649,058)	1,478,929
Cash flows from noncapital financing activities:		
District tax revenues	1,135,514	1,092,820
Net cash provided by noncapital financing activities	1,135,514	1,092,820
Cash flows from capital and related financing activities:		
Purchase of capital assets and other	(258,466)	(5,626,601)
District taxes revenues for debt service	4,297,195	4,255,860
Proceeds from debt borrowings		53,985,000
Principal payments on debt borrowings	(2,080,000)	(49,985,000)
Interest payments	(1,939,327)	(2,259,698)
Net cash provided by capital financing activities	19,402	369,561
Cash flows from investing activities:		
Net change in unearned revenue	(900,000)	(1,200,000)
Net change in assets limited as to use	(200,934)	(712,990)
Net change in short-term investments	1,124,609	(2,008,970)
Interest received and other	136,881	16,725
Net cash (used in) investing activities	160,556	(3,905,235)
Net increase (decrease) in cash and cash equivalents	666,414	(963,925)
Cash and cash equivalents at beginning of year	4,095,852	5,059,777
Cash and cash equivalents at end of year	$ 4,762,266	$ 4,095,852

See accompanying notes and auditor's report

	Year Ended June 30 2023	2022
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating (loss)	$ (2,502,462)	$ (1,018,305)
Adjustments to reconcile the operating loss to net cash provided by or used in operating activities:		
Depreciation and amortization	3,101,335	3,246,446
Changes in operating assets and liabilities:		
Patient accounts receivables	20,290	(4,217)
Other receivables	(1,268,874)	8,289
Prepaid expenses and deposits	(5,659)	490
Accounts payable and accrued expenses	9,970	(717,153)
Accrued payroll and related liabilities	(3,658)	(36,621)
Net cash provided by (used in) operating activities	$ (649,058)	$ 1,478,929

See accompanying notes and auditor's report

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Tehachapi Valley Healthcare 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 is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the district to specified terms of office. The District, located in Tehachapi, California, owns an acute care and long-term care facility under the "critical access hospital" designation. The District also owns several rural health clinics in Tehachapi, California City and Mojave, California. These facilities are leased to Adventist Health who operates the District facilities in order to provide health care services primarily to individuals who reside in the local geographic area.

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 Hospital has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Management's Discussion and Analysis: Effective July 1, 2002, the District adopted 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. One of the main components of these new provisions allows the inclusion of a management's discussion and analysis to accompany the financial statement presentation.

The management's discussion and analysis is a narrative introduction and analytical overview of the District's financial activities for the year being presented. This analysis is similar to the analysis provided in the annual reports of organizations in the private sector. As stated in the opinion letter, the management's discussion and analysis is not a required part of the financial statements but is supplementary information and therefore not subject to audit procedures or the expression of an opinion on it by auditors.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position: Net position 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 those net position by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is “unrestricted” net position. This category consists of net position that do not meet the definition or criteria of the previous two categories.

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: 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 nonoperating revenues.

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 collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Assets Limited as to Use: Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost at the date of acquisition, 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 40 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, 2023 and 2022, the District has determined that there are no capital assets that are significantly impaired.

Costs incurred in obtaining computer software for internal use, which includes costs of configuration, installation and testing, are capitalized by the District. Costs incurred during the post-implementation stages of internal use software are expensed as incurred. The capitalization and ongoing assessment of recoverability of computer software costs require considerable judgement with respect to external factors, including, but not limited to, technological and economic feasibility and estimated economic useful life.

Deferred Outflows of Resources: The statements of net position sheet report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (decrease or consumption of net position) that apply to future periods and therefore will not be recognized as an expense until that time. At June 30, 2023 and 2022, the District reported deferred outflows of resources resulting from the difference between the reacquisition price and the refunding bond proceeds. These charges will be expensed as amortization expense in future years over the shorter period of the remaining maturity of the original bonds or the new bonds according to GASB 20. For the year ended June 30, 2023 and 2022, the District recognized $192,704 and $134,192 of amortization expense.

Concentrations of credit risk: Financial instruments which potentially subject the District to concentrations of credit risk consist primarily of investments and accounts receivable. The investment portfolios are managed by outside investment firms and Kern County within guidelines which, as a matter of policies, limit the amounts which may be invested in any one issuer. Concentration of credit risk with respect to accounts receivable, other than from government programs, is limited due to the large number of third-party and self-pay payors comprising the District's patient base.

Compensated Absences: The District's employees earn paid-time-off (PTO) benefits at varying rates depending on years of service. Benefits can accumulate up to specified maximum levels. Employees are paid for accumulated PTO if they leave either upon termination or retirement. Accrued PTO liabilities as of June 30, 2023 and 2022 were $7,734 and $11,063, respectively and are included in accrued payroll and related liabilities as presented on the statements of net position.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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. In the case of employee health coverage, the District provides traditional indemnity programs.

Net Patient Service Revenues: Net patient service revenues are reported at the estimated net realized amounts from patients, third-party payors and others, including estimated retroactive adjustments under reimbursement agreements with third-party programs, during the period in which the healthcare services were provided. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, per diem amounts and other. 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 revenues and then written off entirely as an adjustment to net patient service revenues.

District Tax Revenues: The District receives financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the District’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. Property taxes are considered delinquent on the day following each payment date. Those dates are: (1) lien date of January 1; (2) due dates of November 1 and February 1; and (3) delinquent dates of December 10 and April 10.

Operating Revenues and Expenses: The District’s statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating 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. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Revenue Recognition: As previously stated, net patient service revenues are reported at amounts that reflect the consideration to which the District expects to be entitled in exchange for patient services. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of third-party payor audits, reviews, and investigations. Although the District is no longer managing the hospital operations, it is still collecting residual patient revenue. This revenue was generated when the District was operating the hospital and generally, the District would bill the patients and third-party payors several days after the patient received healthcare services at the hospital. Revenue was then recognized as services were rendered.

The District had agreements with third-party payors that provided for payments to the District at amounts different from its established rates. Payment arrangements included prospectively determined rates per day, discharge or visit, reimbursed costs, discounted charges and per diem payments. Retroactive adjustments were accrued on an estimated basis in the period the related services were rendered and adjusted in future periods as final settlements were determined. To date, some of those final settlements are still in process of being determined.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the asset is to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. 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 asset is placed in service. Cash received in excess of revenue recognized is deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Donor restricted contributions whose restriction expire during the same fiscal year are recognized as net assets without donor restrictions. Absent donor imposed restrictions, the District records donated services, materials, and facilities as net assets without donor restrictions.

From time to time, the District receives grants from various governmental agencies and private organizations. Revenues from grants are recognized when all eligibility requirements, including time requirements are met. Grants 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 position.

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2023 and 2022, the District had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounted to $4,761,847 and $4,095,689, respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for $250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the 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 District 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 C - NET SERVICE REVENUES

The District no longer services patients but still collects residual balances from old patient accounts and is still entitled to certain State and Federal supplemental programs. There were no patient services rendered during 2023 and 2022, only collections from old accounts and revenues from the aforementioned supplemental programs:

	2023	2022
Inpatient services	-0-	-0-
Outpatient services and other	-0-	-0-
Rural health clinic services	$ -0-	$ -0-
Gross service revenues	-0-	-0-
Governmental supplemental subsidies and other collections	-0-	1,465,579
Net service revenues and collections	$ -0-	$ 1,465,579

The District had agreements with third-party payors that provided or payments to the District at amounts different from its established rates. A summary of those payment arrangements with major third-party payors follows:

Medicare: As a designated critical access District, Medicare reimbursement is generally settled with the District on cost-based formulas. Interim payments for inpatient and outpatient care services rendered to Medicare program beneficiaries are based on estimated determined rates throughout the year. After year end and the submission of an annual cost report, program expenses are audited by the Medicare fiscal intermediary and settlements are reached to finalized the reimbursement of Medicare program expenses for the year. At June 30, 2023 and 2022, cost report settlements have all been repaid to Adventist Health.

NOTE C - NET PATIENT SERVICE REVENUES (continued)

Medi-Cal: Payments for inpatient services rendered to Medi-Cal patients are made based on reasonable costs through December 31, 2013. Effective January 1, 2014, the State of California's Medi-Cal program changed inpatient reimbursement to Diagnosis-Related Groups (DRG), similar to the Medicare inpatient payment methodology. Outpatient payments and rural health care services continue to be paid on pre-determined charge screens and prospectively determined rates, respectively. The District is paid for cost-based inpatient services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. At June 30, 2023 and 2022, cost report settlements have all been repaid to Adventist Health.

Other: Payments for services rendered to other than Medicare and traditional Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

NOTE D - CONCENTRATION OF CREDIT RISK

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of $250,000. Although deposits exceed the limit in certain bank accounts, management believes that the risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss due to concentration of credit risk with regards to investments as the District has no investments in equity funds, closed-end funds, exchange-traded products, or other perceived "at risk" alternatives as of June 30, 2023 and 2022

Patient Accounts Receivable: 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 are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2023 and 2022were as follows:

	2023	2022
Medicare		
Medi-Cal		
Other third party payors		
Self pay, refunds and other	$ -0-	$ 50,290
Gross patient accounts receivable	-0-	50,290
Less allowances for contractual, bad debts and other	-0-	(30,000)
Net patient accounts receivable	$ -0-	$ 20,290

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2023 and 2022 were comprised of the following:

	2023	2022
State of California IGT	$ 1,211,787	
Property tax receivables due from the County	24,599	
Election cost due back to the District	8,258	
Interest receivable	$ 33,556	$ 9,326
	$ 1,278,200	$ 9,326

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2023 and 2022 were comprised of the following:

	2023	2022
Amounts held by county and others as trustees under bond agreements	$ 3,916,288	$ 3,715,354
	3,916,288	3,715,354
Less amounts available for current obligations	(2,428,633)	(2,412,346)
	$ 1,487,655	$ 1,303,008

Interest income, dividends, and other like-kind earnings are recorded as investment income in the statement of revenues, expenses and changes in net position. Unrealized gains and (losses) are also recorded as investment income. Assets limited as to use are funds restricted by either (1) the Board of Directors for specific operating or capital improvement purposes; (2) assets restricted by outside donors to the District; and/or (3) assets held in trust for specific purposes according to bond indenture agreements or other similar agreements.

NOTE G - EMPLOYEES' RETIREMENT PLANS

The District has a defined contribution plan (the Plan) in which substantially all District employees are eligible. The Plan is designed to qualify as a governmental plan as defined in Code Section 457(b) Deferred Compensation Plan and a 401(a) Pension Plan (Employer Matching).

For 2023 and 2022, participants are permitted to contribute up to a maximum of $18,000 annually for participants 49 years of age and below, and up to $24,000 annually for participants that are 50 years of age and older. The District may voluntarily match up to a maximum of 4% of the participant's annual contributions for each plan year. Participants are eligible for vesting beginning their third year of service. Beginning the 5th year of service, the participants are fully vested.

NOTE H - CAPITAL ASSETS

Capital assets as of June 30, 2023 and 2022 were comprised of the following:

	June 30, 2022	Transfers & Additions	Retirements	June 30, 2023
Land and land improvements	$ 2,436,800			$ 2,436,800
Buildings and improvements	104,391,700			104,391,700
Equipment and software	11,935,747			11,935,747
Construction-in-progress	750,654	$ 67,408		818,062
Totals at historical cost	119,514,901	67,408		119,582,309
Less accumulated depreciation for:				
Land and land improvements	(97,382)	(4,848)		(102,230)
Buildings and improvements	(10,390,646)	(2,579,365)		(12,970,011)
Equipment and software	(8,624,142)	(517,121)		(9,141,263)
Total accumulated depreciation	(19,112,170)	(3,101,334)		(22,213,504)
Capital assets, net	$100,402,731	$ (3,033,926)	$	$ 97,368,805

	June 30, 2021	Transfers & Additions	Retirements	June 30, 2022
Land and land improvements	$ 2,436,800			$ 2,436,800
Buildings and improvements	104,391,700			104,391,700
Equipment and software	11,935,747			11,935,747
Construction-in-progress	215,224	$ 535,430		750,654
Totals at historical cost	118,979,471	535,430		119,514,901
Less accumulated depreciation for:				
Land and land improvements	(92,534)	(4,848)		(97,382)
Buildings and improvements	(7,811,281)	(2,579,365)		(10,390,646)
Equipment and software	(8,096,101)	(528,041)		(8,624,142)
Total accumulated depreciation	(15,999,916)	(3,112,254)		(19,112,170)
Capital assets, net	$102,979,555	$ (2,576,824)	$	$100,402,731

NOTE I - DEBT BORROWINGS

As of June 30, 2023 and 2022, debt borrowings were as follows:

	2023	2022
General Obligation Bonds, 2004 Election, 2004 Series A; interest at 2.0% to 5.0%, due semiannually; principal due in annual amounts; collateralized by District property tax revenues:	$ 374,988	$ 374,988
General Obligation Bonds, 2004 Election, 2006 Series B; interest at 4.0% to 4.83%, due semiannually; principal due in annual amounts; collateralized by District property tax revenues:	1,134,991	1,259,991
General Obligation Bonds, 2004 Election, 2009 Series C; interest at 6.0% to 11.9%, due semiannually; principal due in annual amounts; collateralized by District property tax revenues:	975,000	1,230,000
General Obligation Refunding Bonds, 2004 Election, 2013 Series A; interest at 1.25.0% to 4.0%, due semiannually; principal due in annual amounts; collateralized by District property tax revenues:	3,415,000	4,125,000
General Obligation Refunding Bonds, 2009 Election, Series 2021; interest at 2.50% to 3.25%, due semiannually; principal due in annual amounts; collateralized by District property tax revenues:	52,995,000	53,985,000
Accreted interest payable	2,943,726	2,600,283
Unamortized bond premiums	173,022	216,101
	62,001,727	63,791,363
Less current principal maturities of debt borrowings	(2,110,000)	(2,080,000)
	$ 59,901,727	$ 61,711,363

Future principal maturities for debt borrowings for the next five succeeding years are: $2,110,000 in 2024; $2,740,000 in 2025; $2,990,000 in 2026; $2,850,000 in 2027; and $2,022,281 in 2028.

NOTE J - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2023:

		Investment Maturities in Years		
As of June 30, 2023	Fair Value	Less than 1	1 to 5	Over 5
Funds held in County treasury	$ 3,940,832	$ 3,940,832		
Funds held by LAIF (State treasury)	4,274,159	4,274,159		
Money market and mutual funds	1,858,674	1,858,674		
Total investments	$ 10,073,665	$ 10,073,665		

The District's investment balances and average maturities were as follows at June 30, 2021:

		Investment Maturities in Years		
As of June 30, 2022	Fair Value	Less than 1	1 to 5	Over 5
Funds held at County treasury	$ 3,676,573	$ 3,676,573		
Funds held by LAIF (State treasury)	5,398,768	5,398,768		
Money market and mutual funds	1,172,498	1,172,498		
Total investments	$ 10,247,839	$ 10,247,839		

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 generally upon demand. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the a District can manage its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations. 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. Generally, a District's investment policy for corporate bonds and notes is to invest in companies having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

NOTE J - INVESTMENTS (continued)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), a District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. A District's investments are generally held by broker-dealers or bank's trust departments used by a District to purchase securities.

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 investment allows investments in the State of California's Local Agency Investment Fund, which has a diverse portfolio generally of money-market and mutual funds of government-backed securities and other instruments.

Investment Hierarchy - The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant other unobservable inputs. The District investments are solely measured by Level 1 inputs and does not have any investments that are measured using Level 2 or 3 inputs.

NOTE K - COMMITMENTS AND CONTINGENCIES

Construction in Progress: As of June 30, 2023 and 2022, the District had $818,062 and $750,654, respectively in construction in progress representing cost capitalized mainly for certain renovations of the old hospital. The District has not capitalized interest expense and other related financing costs as a component of construction in progress during the fiscal year ended June 30, 2023. Due to the fact that the former District hospital facilities (the old hospital) did not meet the California Seismic Safety Standards and because the community had outgrown the District's ability to serve their medical needs, the District constructed and completed a new hospital in Tehachapi, funded in part by (1) the issuance of general obligation bond offerings conducted by Kern County by means of a special election and by (2) advance rent payments as discussed in Note L. The new hospital was deemed to be completed on January 1, 2019.

Operating Leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2023 and 2022, was $14,835 and $15,925, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2023, that have initial or remaining lease terms in excess of one year are not considered material.

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, 2023 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows. Any litigation contingencies for the current fiscal year have been properly recorded.

NOTE K - COMMITMENTS AND CONTINGENCIES (continued)

Risk Management: The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in Program Beta, to account for and finance certain uninsured risk of loss. Under this program, Program Beta provides basic professional liability coverage with limits to $5,000,000 per claim. The District purchases commercial insurance for all other risks of loss.

Workers Compensation Program: The District is a participant in the Association of California District's Alpha Fund (the Fund) which administers a self-insured worker's compensation plan for participating District employees of its member Districts. The District pays premiums to the Fund which are adjusted annually. If participation in the 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 Fund.

NOTE L - ADVENTIST HEALTH AGREEMENTS

The District has entered into three separate agreements with Adventist Health (AH) due to the need for an external funding source required to supplement the construction of the new hospital within the boundaries of the District.

Master Facilities Lease: Effective November 1, 2016, the District entered into an agreement with AH whereby AH leases the District-owned hospital facilities from which to operate an acute care hospital in Tehachapi. Monthly rental income to the District is $75,000 and the lease agreement terminates October 31, 2046.

Affiliation Agreement: Certain District assets and liabilities have been acquired and assumed by AH through an affiliation agreement effective November 1, 2016. As of June 30, 2023 and 2022, the net payable to AH by the District as a result of this agreement is $-0- and $-0-, respectively.

Construction Funding Agreement: This agreement allows the District to receive rent advances pursuant to the Master Lease Agreement up to $27,000,000 in order to complete construction of the new hospital. These borrowings from AH are being repaid over time by rent payments due to the District. As of June 30, 2023 and 2022, unearned revenue related to this agreement amounted to $22,878,398 and $23,778,398, respectively.

NOTE M - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through January 16, 2024, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership
1111 East Herndon Avenue, Suite 211, Fresno, California 93720
Voice: (559) 431-7708 Fax: (559) 431-7685

Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Tehachapi Valley Healthcare District
Tehachapi, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tehachapi Valley Healthcare District (the District) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 16, 2024

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JWT & Associates, LLP

Fresno, California
January 16, 2024

See accompanying notes and auditor's report