

Audited Financial Statements

**TULARE LOCAL
HEALTH CARE DISTRICT**

June 30, 2023 and 2022

Audited Financial Statements

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2023

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Management's Discussion and Analysis

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2023

Overview

Management of the Tulare Local Healthcare District ("District") has prepared this annual discussion and analysis 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 Financial Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information regarding the District's financial performance, along with a discussion of future operations of the District as it conducts its Chapter 9 Bankruptcy Plan of Adjustment (the "Plan") and works closely with Adventist Health Tulare ("Adventist"), operator of the District's hospital facility and its Tenant under that certain Lease, dated as of February 12, 2019. The Management discussion should be reviewed in conjunction with the audited financial statements and accompanying notes for the fiscal year ended June 30, 2023, to enhance one's understanding of the District's recent financial performance.

Background

Tulare Regional Medical Center ("Hospital") closed for business on October 29, 2017, after filing for Chapter 9 Bankruptcy on September 30, 2017. On October 15, 2018, the Hospital re-opened under the management of Adventist Health Tulare, a private, nonprofit corporation. Adventist assumed operations of the Hospital on March 15, 2019, under an initial 5.5-year ("Lease") with subsequent 5-year automatic extensions, for a total 30-year lease. The District's Chapter 9 Plan of Adjustment was effective October 17, 2019. Bankruptcy payments are set to start by October 2025.

The District refinanced both its General Obligation and Revenue Bonds in 2020 generating an overall savings for taxpayers and the District. The Revenue Bond refinancing also paid off the City of Tulare line of credit.

Financial Overview

Balance sheet assets overall increased \$1,055,000. Below are the highlights.

- Cash increased 3,314,423 (21%) over FY22, deriving from a bankruptcy claims settlement and a full year of Evolutions revenues.
- Long Term Lease Receivables decreased \$2,305,300.
- Net Capital Assets remained primarily unchanged (a decrease of \$51,165) with a decrease of \$763,464 (1.6%) in Building and Building Improvements due to the demolition of several rental properties, and an increase of \$837,965 in Construction in Progress and accumulated depreciation.

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

Balance sheet liabilities overall decreased \$2,804,592. Below are the highlights.

- Accounts Payable decreased \$159,028 (8.1%).
- The Adventist Health line of credit was paid in full, a decrease of \$1,287,453.
- Deferred Inflows (Lease Payable) decreased \$2,206,063 (12.1%).
- Long Term Debt decreased a net \$424,127. There was a decrease of \$1,791,000 in long term debt on the general obligation and revenue bonds issued in 2020. New debt of \$3,365,000 was added in FY23 for the solar project.
- Net position increased \$3,859,952 for the year stemming primarily from the receipt of the bankruptcy settlement.

The combined (District and Evolutions) operating statement shows an increase in operating revenues over FY22 of \$3,534,676 (57%) due to the management of Evolutions for the entire year and receipt of the bankruptcy claim. Operating expenses increased \$1,302,866 (133%) with the management of Evolutions for the full year also.

Key Activities

- Managed Evolutions Fitness and Wellness Center since April 1, 2022; FY23 was the first full year of District management since FY17.
- All but one contested bankruptcy claim has been resolved.
- Transitioned a new CEO in January 2023.
- Developed a strategic plan for FY23-24.
- Revised the investment policy and started investing in short term treasury bills in addition to the District's investment with the State of California - Local Agency Investment Fund (LAIF).
- Secured Revenue Bond for the Evolutions Solar project for \$3,365,000.
- Continued to improve its real property interests and in FY23 increased construction in progress and fixed assets by a net amount of \$1,314,635; of which \$970,898 was related to Evolutions fixed assets and solar project in construction in progress.
- Secured \$200,000 in Covid Relief Funds through the City of Tulare.
- Developed a construction plan for the Tower project to meet HCAI requirements and researched alternative funding options.
- Prepared draft construction Term Sheet for potential medical office building.
- Established a Clinical Services and Provider Ad Hoc Committee.
- Hired an Administrative Director.

All financial matters described previously, along with the resultant impact of the District's ongoing execution of its Chapter 9 Plan of Adjustment, form the basis of the fiscal year ended June 30, 2023 audited financial statements.

Management's Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

Future Initiatives

The District has developed a short-term and long-term strategic vision, which included the following actions and initiatives:

Improve Community Health

- Fill in Community Health Need Gaps
- Develop a Community Education Plan
- Participate in Healthcare Provider Recruitment and Retention Efforts
- Increase Evolutions Member Utilization

Demonstrate Outstanding Stewardship

- Develop Plan for Tower Completion
- Develop Plan for Real Estate Development
- Restore and Renew Evolutions Plaza

Improve Community Outreach and Communication

- Expand Community Outreach
- Improve Community Communication

Ensure Financial Sustainability

- Establish Investments of Surplus Cash
- Develop and Fund Operational Cash Reserve
- Pursue other Sources of Capital
- Develop and Maintain Cash Flow Projection
- Meet Evolutions Financial Targets

Pursue Performance Excellence

- Establish Excellence Criteria
- Maintain Board Alignment
- Improve Employee Engagement

Management’s Discussion and Analysis (continued)

TULARE LOCAL HEALTH CARE DISTRICT

With regards to the District’s approved budget for FY24, the Board of Directors approved a combined budget of the following on a cash flow basis:

Budgeted Revenues	\$ 8,289,030
Budgeted Expenses	(3,693,266)
Revenue Bond Repayment	(1,583,323)
Capital Expenditures	<u>(4,519,065)</u>
Draw from Cash	<u>\$ (1,506,624)</u>

With regards to the Plan, the District continues to pursue recoveries on one preferential transfer and litigate to conclusion or settlement one claim objection.

A civil suit continues to be litigated against the District’s former general counsel.

If you have questions concerning the information provided in the Management Discussion & Analysis please contact Tulare Local Healthcare District’s CEO, Randy Dodd at rdodd@tulareregional.org or 559 656-1301.

JWT & Associates, LLP

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Report of Independent Auditors

The Board of Directors
Tulare Local Health Care District
Tulare, California

Opinion

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Tulare Local Health Care 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 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 business-type activities and fiduciary activities 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and *Government 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 and *Government 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.

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.

Emphasis of Matter

As discussed in Note A, the District adopted GASB 87 for the year beginning July 1, 2021 and ending June 30, 2022. Our opinion is not modified with respect to this matter.

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, 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 *Government Auditing Standards*, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In our opinion, the supplementary schedules as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2023, 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.

JW7 & Associates, LLP

Fresno, California
November 27, 2023

Statements of Net Position

TULARE LOCAL HEALTH CARE DISTRICT

	June 30	
Assets	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 15,439,201	\$ 12,124,778
Assets limited as to use available for current debt service	3,490,679	3,190,991
Rents receivable	19,726	18,273
Other receivables	2,386,809	3,332,554
Prepaid expenses and deposits	<u>61,821</u>	<u>100,624</u>
Total current assets	21,398,236	18,767,220
Assets limited as to use	13,578,078	12,797,269
Capital assets, net of accumulated depreciation	120,637,962	120,689,127
Other assets, long-term lease receivables	<u>13,678,258</u>	<u>15,983,558</u>
Total assets	<u><u>\$169,292,534</u></u>	<u><u>\$168,237,174</u></u>
 Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 2,059,000	\$ 3,071,988
Accounts payable and accrued expenses	1,809,434	1,968,462
Accrued payroll and related liabilities	<u>70,003</u>	<u>61,970</u>
Total current liabilities	3,938,437	5,102,420
Bankruptcy payables	4,970,469	4,993,876
Debt borrowings, net of current maturities	<u>97,991,976</u>	<u>97,403,115</u>
Total liabilities	106,900,882	107,499,411
Deferred inflows of resources	15,970,181	18,176,244
 Net position		
Invested in capital assets, net of related debt	20,586,986	32,872,277
Restricted, by bond indenture agreements for debt service	17,068,757	15,988,260
Unrestricted (deficit)	<u>8,765,728</u>	<u>(6,299,018)</u>
Total net position	<u>46,421,471</u>	<u>42,561,519</u>
Total liabilities, deferred inflows and net position	<u><u>\$169,292,534</u></u>	<u><u>\$168,237,174</u></u>

Statements of Revenues, Expenses and Changes in Net Position

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
Operating revenues		
Former patient residual collections	\$ 123,452	\$ 118,510
District tax revenues used for operations	2,497,183	2,332,776
Investment income, related to operations	959,999	713,441
Rental income	2,440,122	2,262,683
Other operating revenue	<u>3,724,495</u>	<u>783,165</u>
Total operating revenues	9,745,251	6,210,575
Operating expenses		
Salaries and wages	1,399,606	650,079
Employee benefits	300,492	130,980
Professional fees	671,337	517,556
Supplies	108,880	40,204
Purchased services	537,263	352,378
Repairs and maintenance	71,150	72,081
Utilities and phone	355,103	118,342
Building and equipment rent	86,469	115,144
Insurance	335,831	380,632
Depreciation and amortization	1,373,677	1,536,887
Other operating expenses	<u>49,098</u>	<u>71,757</u>
Total operating expenses	<u>5,288,906</u>	<u>3,986,040</u>
Operating income	4,456,345	2,224,535
Nonoperating revenues (expenses)		
District tax revenues related to debt service	2,247,195	3,016,716
Investment income, related to bond premiums	665,176	665,176
Interest expense	(3,581,013)	(3,589,145)
Gain (loss) on disposal of assets		70,583
Grants and contributions	200,000	6,019,980
Other non-operating expenses	<u>(127,751)</u>	
Total nonoperating revenues (expenses), net	<u>(596,393)</u>	<u>6,183,310</u>
Net increase in net position	3,859,952	8,407,845
Net position at beginning of the year	<u>42,561,519</u>	<u>34,153,674</u>
Net position at end of the year	<u>\$ 46,421,471</u>	<u>\$ 42,561,519</u>

See accompanying notes and auditors' report

Statements of Cash Flows

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from former patient residual collections and other	\$ 123,452	\$ 118,510
Cash received from other operations	7,123,163	3,762,859
Cash payments to suppliers and contractors	(1,313,781)	(2,014,450)
Cash payments to employees and benefit programs	<u>(1,692,065)</u>	<u>(730,343)</u>
Net cash provided by operating activities	4,240,769	1,136,576
Cash flows from noncapital financing activities:		
District tax revenues used for operations	2,497,183	2,332,776
Investment income, related to bond premiums	665,176	665,176
Grants and contributions	<u>200,000</u>	<u>6,019,980</u>
Net cash provided by noncapital financing activities	3,362,359	9,017,932
Cash flows from capital financing activities:		
District tax revenues related to debt service	2,247,194	3,016,716
Net changes in capital assets and other changes	(1,322,511)	(447,217)
Proceeds from debt borrowings	3,365,000	88,629
Principal payments on debt borrowings and other	(3,789,127)	(3,294,019)
Interest payments on debt borrowings and other	<u>(3,708,764)</u>	<u>(3,589,145)</u>
Net cash (used in) capital financing activities	(3,208,208)	(4,225,036)
Cash flows from investing activities:		
Net (purchase) or sale of assets limited as to use	<u>(1,080,497)</u>	<u>550,053</u>
Net cash provided by (used in) investing activities	(1,080,497)	550,053
Net increase in cash and cash equivalents	3,314,423	6,479,525
Cash and cash equivalents at beginning of year	<u>12,124,778</u>	<u>5,645,253</u>
Cash and cash equivalents at end of year	<u>\$ 15,439,201</u>	<u>\$ 12,124,778</u>

Statements of Cash Flows (continued)

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss), net of district taxes	\$ 1,959,162	\$ (108,241)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,373,677	1,536,887
Changes in operating assets, liabilities and other:		
Rents receivable	(1,453)	3,570
Other receivables	945,745	(2,365,698)
Prepaid expenses and deposits	38,803	(25,883)
Other assets, long-term lease receivables	2,305,300	(15,983,558)
Accounts payable and accrued expenses	(159,028)	(141,337)
Accrued payroll and related liabilities	8,033	50,716
Deferred inflows of resources	(2,206,063)	18,176,244
Bankruptcy payables	<u>(23,407)</u>	<u>(6,124)</u>
Net cash provided by (used in) operating activities	<u>\$ 4,240,769</u>	<u>\$ 1,136,576</u>

See accompanying notes and auditor's report

June 30, 2023

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: Tulare Local Health Care District (the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District 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 specified areas within the District to specified terms of office. The District is located in Tulare, California. It owns a 108-bed acute care Hospital facility which it leases to Adventist Health - Tulare, a California non-profit organization which operates the Hospital. Through this leasing arrangement with Adventist Health - Tulare, the District is able to provide health care services primarily to individuals who reside in the local geographic area, thus accomplishing the mission and purpose of the District.

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, according to recent GASB Statements. The District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) 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. 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.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents: 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 when earned.

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.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment and as of June 30, 2023 and 2022, the District has made certain allowances for these impairments.

Deferred Inflows of Resources: Deferred inflows of resources are comprised of deferred revenues associated with leases capitalized under GASB 87. Deferred inflows for the year ended June 30, 2023 are from the Adventist lease for the Hospital facilities for \$15,768,357; from the Veterans Administration lease for \$171,582; and from the Fugazzis lease for \$30,242; for a total of \$15,970,181. Deferred inflows for the year ended June 30, 2022 are from the Adventist lease for the Hospital facilities for \$17,712,112; from the Veterans Administration lease for \$343,164; and from the Fugazzis lease for \$120,968; for a total of \$18,176,244. GASB 87 took affect July 1, 2021.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Compensated Absences: The District’s employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2023 and 2022 are \$29,696 and \$30,178, respectively.

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

Net Position: Net position (formerly net assets) are 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.

Former Patient Residual Collections: Former patient residual collections are patient collections that are continuing to be received long after the patient had received service for care when the District was operating the Hospital. These amounts are basically comprised of accounts that had previously been written off or allowed for.

District Tax Revenues: The District receives approximately 65% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. 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.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. For the fiscal year ended June 30, 2023 and 2022, operating revenues include revenues associated with providing services essential to the mission of the District. Operating expenses include expenses incurred to provide those essential services, plus other costs incurred during the fiscal year. Nonoperating revenues and expenses are those transactions not considered directly linked to providing the District's essential services.

Recently Adopted Accounting Pronouncement: In June, 2017 the Governmental Accounting Standards Board released GASB 87 regarding changes in the way leases are accounted for. GASB 87 superceded GASB 13 and GASB 62 and more accurately portrays lease obligations by recognizing lease assets and lease liabilities on the statement of net position and disclosing key information about leasing arrangements. The District has adopted GASB 87 effective July 1, 2021 in accordance with the timetable established by GASB 87.

Revenue Recognition: Net patient service revenues were reported at amounts that reflected the consideration to which the District expected to be entitled in exchange for patient services. These amounts were due from patients, third-party payors (including health insurers and government programs), and others and included 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 collections from old patient accounts. This type of revenue is a result of when the District was operating the Hospital wherein 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 and are considered to be former patient residual collections.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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 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 in the statement of revenues, expenses and changes in net position.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2023 and 2022, the District had operating deposits invested in various financial institutions in the form of cash and cash equivalents amounted to \$15,438,800 and \$12,124,378. 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.

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE C - FORMER PATIENT RESIDUAL COLLECTIONS

Former patient residual collections as of June 30, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Former patient residual collections	\$ 77,882	\$ 74,631
Recovery of bad debt	<u>45,570</u>	<u>43,879</u>
Total former patient residual collections	<u>\$ 123,452</u>	<u>\$ 118,510</u>

Although the District no longer is providing health care services, it is still in the process of collecting payments on former patient accounts from patient services rendered before the transfer of the Hospital operations as well as supplemental programs that were in effect at that time.

NOTE D - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its third-party payors. Lease receivables with significant third-party entities 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 entities at this time. Other receivables 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 other receivables at June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Preference claims receivable, related to bankruptcy		\$ 602,188
Property taxes receivable	\$ 71,494	113,901
Lease receivables	15,983,558	18,191,299
Other receivables	<u>10,015</u>	<u>408,724</u>
Total receivables	16,065,067	19,316,112
Less long-term lease receivables	<u>(13,678,258)</u>	<u>(15,983,558)</u>
Current receivables	<u>\$ 2,386,809</u>	<u>\$ 3,332,554</u>

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE D - CONCENTRATION OF CREDIT RISK (continued)

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.

NOTE E - ASSETS LIMITED AS TO USE

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents held for general obligation bond debt service	\$ 11,961,730	\$ 13,581,836
Cash and cash equivalents and debt securities held under revenue bond indenture agreements for debt service requirements	<u>5,107,027</u>	<u>2,406,424</u>
	17,068,757	15,988,260
Less amounts available for current obligations	<u>(3,490,679)</u>	<u>(3,190,991)</u>
	<u>\$ 13,578,078</u>	<u>\$ 12,797,269</u>

NOTE F - TULARE HOSPITAL FOUNDATION

The Tulare Hospital Foundation (the Foundation), operates as a non-profit public benefit corporation under the Internal Revenue Code Section 501 (c) (3) for the charitable purpose of procuring and extending financial aid and other resources toward the provision of Hospital and related services to the City of Tulare and outlying areas. The Foundation’s funds represent the Foundation’s unrestricted resources, which, upon request by the District, may be donated to the District in amounts and at times determined by the Foundation Board of Trustees, in its sole discretion. Donated funds to the District may be restricted by the Foundation for specific purposes such as discrete capital improvement projects or other District projects in furtherance of its charter. The Foundation is not considered to be a component unit of the District as such component units are defined by accounting regulatory criteria. As such, the financial activities of the Foundation are not required to be combined with the District overall financial results for the years ended June 30, 2023 and 2022.

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE G - CAPITAL ASSETS

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

	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Transfers & Retirements</u>	<u>Balance at June 30, 2023</u>
Land and land improvements	\$ 2,931,547		\$ 289,891	\$ 3,221,438
Buildings and improvements	48,115,391	\$ 10,314	(763,128)	47,362,577
Equipment	1,618,461		86,831	1,705,292
Construction-in-progress	<u>109,790,769</u>	<u>1,314,635</u>	<u>(476,669)</u>	<u>110,628,735</u>
Totals at historical cost	162,456,168	1,324,949	(863,075)	162,918,042
Less accumulated depreciation for:				
Land and land improvements	(1,300,726)	(18,658)		(1,319,384)
Buildings and improvements	(38,988,334)	(1,291,136)	856,725	(39,422,745)
Equipment	<u>(1,477,981)</u>	<u>(59,970)</u>	<u> </u>	<u>(1,537,951)</u>
Total accumulated depreciation	<u>(41,767,041)</u>	<u>(1,369,764)</u>	<u>856,725</u>	<u>(42,280,080)</u>
Capital assets, net	<u>\$120,689,127</u>	<u>\$ (44,815)</u>	<u>\$ (6,350)</u>	<u>\$120,637,962</u>

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Transfers & Retirements</u>	<u>Balance at June 30, 2022</u>
Land and land improvements	\$ 2,926,297	\$ 5,250		\$ 2,931,547
Buildings and improvements	46,594,377		\$ 1,521,014	48,115,391
Equipment	1,478,085	140,376		1,618,461
Construction-in-progress	<u>110,939,786</u>	<u>371,997</u>	<u>(1,521,014)</u>	<u>109,790,769</u>
Totals at historical cost	161,938,545	517,623		162,456,168
Less accumulated depreciation for:				
Land and land improvements	(1,267,547)	(33,179)		(1,300,726)
Buildings and improvements	(37,511,088)	(1,477,246)		(38,988,334)
Equipment	<u>(1,451,696)</u>	<u>(26,285)</u>	<u> </u>	<u>(1,477,981)</u>
Total accumulated depreciation	<u>(40,230,331)</u>	<u>(1,536,710)</u>	<u> </u>	<u>(41,767,041)</u>
Capital assets, net	<u>\$121,708,214</u>	<u>\$ (1,019,087)</u>	<u>\$</u>	<u>\$120,689,127</u>

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS

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

	<u>2023</u>	<u>2022</u>
Tulare Local Health Care District 2020 General Obligation Bonds; interest at 4.0% due semiannually; principal due in annual amounts ranging from \$2,655,000 on August 1, 2020 to \$6,185,000 due on August 1, 2039; collateralized by property taxes:	\$ 66,210,000	\$ 67,405,000
Tulare Local Health Care District Refunding Revenue Bonds, Series A - \$11,964,000 and Series B - \$8,775,000; interest at 3.53% (Series A) and interest at 4.59% (Series B) due semiannually; principal due in annual amounts ranging from \$413,000 on September 1, 2021 to \$1,351,000 due on September 1, 2043; collateralized by District revenues;	19,730,000	20,326,000
Tulare Local Health Care District Revenue Bonds, Series 2022; interest at 5.30%; due semiannually; principal due in annual amounts ranging from \$50,000 on September 1, 2025 to \$267,000 on September 1, 2045; collateralized by District revenues:	3,365,000	
Line of credit with Adventist Health; interest is charged at the WSJ prime less .5% with combined repayments as defined within this footnote; collateralized by specified District assets:		1,247,100
Other minor notes payable		85,850
	<u>89,305,000</u>	<u>89,063,950</u>
Less current maturities of debt borrowings	(2,059,000)	(3,071,988)
Plus unamortized bond premium on 2020 general obligation bonds	<u>10,745,976</u>	<u>11,411,153</u>
	<u>\$ 97,991,976</u>	<u>\$ 97,403,115</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$2,059,000 due in 2024; \$2,274,000 due in 2025; \$2,539,000 due in 2026; \$2,826,000 in 2027 and \$3,138,000 in 2028.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS (continued)

Bond Transactions: In February, 2020, the District refinanced both the Tulare Local Health Care District 2005, Series A and Series B General Obligation Bonds with the new Tulare Local Health Care District 2020 General Obligation Bonds. The old bonds were placed in a refunding escrow deposit in the amount of \$82,730,015. The new bonds had a par amount of \$71,085,000 and a premium of \$12,923,454. Debt service will administered by the County of Tulare and funded by property taxes within the District.

In June, 2020, the District refinanced both the Tulare Local Health Care District Refunding Revenue Bonds, Series 2007 and the line of credit with the City of Tulare with the new Tulare Local Health Care District Refunding Revenue Bonds, Series A - \$11,964,000 and Series B - \$8,775,000. The City received a payment of \$7,981,059 and the old bonds were placed in a refunding escrow deposit in the amount of \$12,940,176. The new bonds will be repaid by District revenue sources.

In December, 2022 the District issued the Tulare Local Health Care District Revenue Bonds, Series 2022 in the amount of \$3,365,000 to fund District capital improvements. A project fund was established at the date of issuance in the amount of \$2,921,391 to be used towards capital improvements. A capital interest fund and a cost of issuance fund were also established and funded in the amounts of \$305,664 and \$137,945, respectively.

Adventist Health Line of Credit: In August 2018, the District entered into several agreements with Adventist Health. One of the agreements was a Debtor-In-Possession line of credit agreement (LOC) whereby the District was granted up to \$10 million by Adventist Health in order to aid in the reopening of the Hospital. Interest on the LOC is adjusted based annually based on specific measures. The balances owed on the LOC as of June 30, 2023 and 2022 were \$-0- and \$1,247,100, respectively.

NOTE I - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2022, the District had recorded \$110,628,735 as construction-in-progress, mainly for the “Tower” project. A few years ago the District began construction on this project and funded it through general obligation bonds. Funding has since been exhausted yet the project remains uncompleted. The District plans to seek future additional funding in order to complete the project, however it is undetermined as to when that funding will be secured and construction will continue towards completion. As a result of the delays in construction, no interest has been capitalized into the project since funding ran out and major construction was suspended. Capitalization of interest will resume once major construction on the project begins again.

NOTE J - BANKRUPTCY

Bankruptcy: On September 30, 2017 the District filed a Chapter 9 proceeding in the United States Bankruptcy Court for the Eastern District of California. Following extensive efforts by the District, its consultants, and counsel over the subsequent 19 months, the Court issued its August 16, 2019 Order confirming the District’s Plan of Adjustment (the Plan). The Plan became effective October 17, 2019, and the District commenced with its implementation including execution of a Bond Supplement relating to the District’s general obligation and revenue bonds.

As a result of the acceptance of the Plan by the Court, the financial impact of the terms of the Plan have been incorporated into the financial statements as of June 30, 2023 and 2022. Unsecured creditor claims (class 8) were set at \$5 million to be paid starting in 2025 and continuing through 2029. The repayments will be \$500,000 in 2025, \$750,000 in 2026, \$1,000,000 in 2027, \$1,250,000 in 2028 and \$1,500,000 in 2029. Other claims related to the Plan are recorded as current liabilities. The financial impact of the Plan, plus other settlement proceedings, has allowed the District to record a forgiveness of debt within the statement of revenues, expenses and changes in net position in the amount of \$3,102,424 for the year ended June 30, 2021. There was no debt forgiveness for the year ended June 30, 2023 or 2022.

NOTE K - INVESTMENTS

The District’s investment balances and average maturities were as follows at June 30, 2023 and 2022:

<i>As of June 30, 2023</i>	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Short term investments	\$ 5,445,215	\$ 5,445,215		
County treasury	11,961,730	11,961,730		
Fixed income investments	7,067,949	7,067,949		
Local agency investment fund	<u>8,027,806</u>	<u>8,027,806</u>		
Total investments	<u>\$ 32,502,700</u>	<u>\$ 32,502,700</u>		

<i>As of June 30, 2022</i>	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Short term investments	\$ 2,821,342	\$ 2,821,342		
County treasury	13,581,836	13,581,836		
Local agency investment fund	<u>11,565,113</u>	<u>11,565,113</u>		
Total investments	<u>\$ 27,968,291</u>	<u>\$ 27,968,291</u>		

The District’s investments are reported at fair value as previously discussed. The District’s investment policy allows for various forms of investments generally set to mature within a few months to others over several years.

TULARE LOCAL HEALTH CARE DISTRICT

NOTE K - INVESTMENTS (continued)

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages 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 (including investments held by bond trustees) to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

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

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 Hospital investments are solely measured by Level 1 inputs and does not have any investments that are measured using Level 2 or 3 inputs.

NOTE L - LEASES

As of July 1, 2021 the District adopted the Governmental Accounting Standards Board (GASB) 87 requiring certain changes in the way the District accounted for leases, both as a lessee and as a lessor.

Lessor: The District leases (1) the Hospital facilities to Adventist Health; (2) a clinic building to the Veteran's Administration and (3) another District-owned facility to Fugazzis under operating leases. The District adopted these three leases into GASB 87 provisions and calculations. Other leases analyzed either did not qualify under GASB 87 due to the remaining length of the lease or were considered to not be material to District operations. Lease commencement occurs on the date these third parties take possession or control of the properties. Original terms for

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE L - LEASES (continued)

these leases vary with options to extend for subsequent years. The leases also contains an option to terminate the leases at the end of the lease, with adequate notice to the District. For purposes of lease calculations for these operating leases, it is assumed that the termination clauses would not be exercised.

The leases does not contain a readily determinable discount rate. The estimated borrowing rate of 3.5% was used to discount the remaining cash flows for this operating lease.

Some of the leases require payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Variable lease costs are excluded from the present value of lease obligations.

The District's lease agreement does not contain any material restrictions, covenants, or any material residual value guarantees.

Lessor-lease related assets and liabilities as of June 30, 2023 and 2022 consist of the following:

Assets:	<u>2022</u>	<u>2022</u>
Lease receivable - current portion	\$ 2,305,300	\$ 2,207,741
Lease receivable - noncurrent portion	<u>13,678,257</u>	<u>15,983,558</u>
Total lease assets	<u>\$ 15,983,557</u>	<u>\$ 18,191,299</u>
Deferred inflows of resources:		
Deferred inflows of resources	<u>\$ 15,970,181</u>	<u>\$ 18,176,244</u>
Total deferred inflows of resources	<u>\$ 15,970,181</u>	<u>\$ 18,176,244</u>

Total operating lease revenues under these three lease arrangement and other minor leases for the years ended June 30, 2023 and 2022 were \$2,440,122 and \$2,262,683, respectively.

The future minimum rental payments required under operating lease obligations as of June 30, 2023, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

Notes to Financial Statements (continued)

TULARE LOCAL HEALTH CARE DISTRICT

NOTE L - LEASES (continued)

Years ending June 30,

2024	\$ 2,827,853
2025	2,687,194
2026	2,767,810
2027	2,850,845
Thereafter	<u>6,722,492</u>
Total	17,856,194
Less: interest	<u>(1,872,637)</u>
Present value of lease receivable	<u>\$ 15,983,557</u>

The weighted average for the remaining lease terms of these operating leases vary and the weighted average discount rate for this operating leases is 3.5%

NOTE M - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through November 15, 2023, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

SUPPLEMENTARY SCHEDULES

Combining Statements of Net Position

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2023

	<u>District Operations</u>	<u>Evolutions Operations</u>	<u>Eliminations</u>	<u>Combined Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 15,413,763	\$ 25,438		\$ 15,439,201
Assets limited as to use	3,490,679			3,490,679
Rents receivable	19,726			19,726
Other receivables	2,493,660		\$ (106,851)	2,386,809
Prepaid expenses and deposits	<u>61,821</u>			<u>61,821</u>
Total current assets	21,479,649	<u>25,438</u>	<u>(106,851)</u>	21,398,236
Assets limited as to use	10,906,832	2,671,246		13,578,078
Capital assets, net	117,210,082	3,427,880		120,637,962
Other assets	<u>13,678,258</u>			<u>13,678,258</u>
Total assets	<u>\$163,274,821</u>	<u>\$ 6,124,564</u>	<u>\$ (106,851)</u>	<u>\$169,292,534</u>
Liabilities and Net Position				
Current liabilities:				
Current debt maturities	\$ 2,059,000			\$ 2,059,000
Accounts payable	1,672,805	\$ 243,480	\$ (106,851)	1,809,434
Accrued payroll	<u>17,632</u>	<u>52,371</u>		<u>70,003</u>
Total current liabilities	3,749,437	295,851	<u>(106,851)</u>	3,938,437
Other long-term liabilities	4,970,469			4,970,469
Debt borrowings, less current	<u>94,626,976</u>	<u>3,365,000</u>		<u>97,991,976</u>
Total liabilities	103,346,882	3,660,851		106,900,882
Deferred inflows	15,970,181			15,970,181
Net Position				
Invested in capital assets	20,524,106	62,880		20,586,986
Restricted for debt service	14,397,511	2,671,246		17,068,757
Unrestricted (deficit)	<u>9,036,141</u>	<u>(270,413)</u>		<u>8,765,728</u>
Total net position	<u>43,957,758</u>	<u>2,463,713</u>		<u>46,421,471</u>
Total liabilities and net position	<u>\$163,274,821</u>	<u>\$ 6,124,564</u>	<u>\$ 106,851)</u>	<u>\$169,292,534</u>

Combining Statement of Revenues, Expenses and Changes in Net Position

TULARE LOCAL HEALTH CARE DISTRICT

June 30, 2023

	<u>District Operations</u>	<u>Evolutions Operations</u>	<u>Eliminations</u>	<u>Combined Total</u>
Operating revenues				
Former patient collections	\$ 123,452			\$ 123,452
District taxes for operations	2,497,183			2,497,183
Investment income, operations	959,999			959,999
Rental income	2,440,122			2,440,122
Other operating revenues	<u>1,736,038</u>	<u>\$ 1,988,457</u>		<u>3,724,495</u>
Total operating revenues	7,756,794	1,988,457		9,745,251
Operating expenses				
Salaries and wages	514,254	885,352		1,399,606
Employee benefits	76,323	224,169		300,492
Professional fees	671,337			671,337
Supplies	6,419	102,461		108,880
Purchased services	253,986	283,277		537,263
Repairs and maintenance	22,387	48,763		71,150
Utilities and phone	56,315	298,787		355,103
Building and equipment rent	83,090	3,379		86,469
Insurance	289,376	46,455		335,831
Depreciation and amortization	1,012,798	360,880		1,373,677
Other operating expenses	<u>38,640</u>	<u>10,458</u>		<u>49,098</u>
Total operating expenses	<u>3,024,925</u>	<u>2,263,981</u>		<u>5,288,906</u>
Operating income (loss)	4,731,869	(275,524)		4,456,345
Nonoperating				
District tax revenues for debt	2,247,195			2,247,195
Investment income, bonds	634,455	30,721		665,176
Interest expense	(3,353,536)	(227,477)		(3,581,013)
Grants and contributions	121,000	79,000		200,000
Other non-operating expenses	<u>(127,751)</u>	<u> </u>		<u>(127,751)</u>
Total nonoperating	<u>(478,637)</u>	<u>(117,756)</u>		<u>(596,393)</u>
Increase (decrease) in net position	<u>\$ 4,253,232</u>	<u>\$ (393,280)</u>		<u>\$ 3,859,952</u>

Earnings Before Interest, Depreciation and Amortization (EBIDA)

TULARE LOCAL HEALTH CARE DISTRICT

	Year Ended June 30	
	2023	2022
Operating revenues		
Former patient residual collections	\$ 123,452	\$ 118,510
District tax revenues used for operations	2,497,183	2,332,776
Investment income, related to operations	959,999	713,441
Rental income	2,440,122	2,262,683
Other operating revenues	<u>3,724,495</u>	<u>783,165</u>
Total operating revenues	9,745,251	6,210,575
Operating expenses		
Salaries and wages	1,399,606	650,079
Employee benefits	300,492	130,980
Professional fees	671,337	517,556
Supplies	108,880	40,204
Purchased services	537,263	352,378
Repairs and maintenance	71,150	72,081
Utilities and phone	355,103	118,342
Building and equipment rent	86,469	115,144
Insurance	335,831	380,632
Other operating expenses	<u>49,098</u>	<u>71,757</u>
Total operating expenses w/o interest, depreciation & amortization	<u>3,915,229</u>	<u>2,449,153</u>
Earnings before interest, depreciation and amortization	<u>\$ 5,830,022</u>	<u>\$ 3,761,422</u>

The earnings before interest, depreciation and amortization schedule is derived from the combined statements of operations and changes in net assets. However, it excludes the following line items:

Interest expense
 Depreciation and amortization
 District tax revenues used for debt service
 Gain on disposals of property
 Grants and contributions
 Forgiveness of debt

JWT & Associates, LLP

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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
Tulare Local Health Care District
Tulare, 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 business-type activities of the Tulare Local Health Care 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 November 27, 2023.

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.

JW7 & Associates, LLP

Fresno, California
November 27, 2023