Audited Financial Statements

SOLEDAD COMMUNITY HEALTH CARE DISTRICT

June 30, 2022

JWT & Associates, LLP
Certified Public Accountants

Audited Financial Statements

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FINANCIAL STATEMENTS

Management's Discussion and Analysis

SOLEDAD COMMUNITY HEALTH CARE DISTRICT

June 30, 2022

The management of the Soledad Community Health Care 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, 2022 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, 2022 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Highlights

- Total assets were $11,408,485 for the year as compared to $10,723,238 for the prior year. Total cash and cash equivalents were $3,309,758 for the year as compared to $1,500,003 for the prior year. In addition, net patient accounts receivable were $1,223,274 as compared to the prior year of $1,233,012. Net days in patient accounts receivable were 38.58 for the year as compared to 37.52 for the prior year.

- Current assets were $4,837,139 and current liabilities were $4,914,560 resulting in a 0.98 current ratio for the year as compared to 0.73 for the prior year.

- The operating loss was $(3,021,793) for the year as compared to an operating loss of $(1,901,718) for the prior year.

- The net position showed an decrease of $(2,038,086) in 2022 as compared to an increase of $279,502 in 2021.

- Net patient revenues were $11,572,130 for the year as compared to $12,119,741 for the prior year. Operating expenses were $15,289,853 for the year as compared to $14,146,481 for the prior year.

- Medicare cost reports and Medi-Cal PPS reconciliations transactions for the year resulted in a net liability of $3,713,702, for the years ended June 30, 2022 through June 30, 2019.

Cash and Investments

For the fiscal year ended June 30, 2022, the District's operating and board designated cash and investments totaled $3,303,627 as compared to $1,493,848 for the prior year. At June 30, 2022, days cash on hand were 81.07 as compared to 39.23 for the prior year. The District maintains sufficient cash and cash equivalent balances to pay all short-term liabilities.

Current Liabilities

As previously noted, current liabilities of the District were $4,914,560. This was due to a combination of trade payables of $431,440, accrued payroll liabilities of $637,432, third party settlements of $3,713,702 and current maturities of debt borrowings of $131,986.

Capital Assets

During the year the District spent $361,368 for capital purchases for construction in progress, for building improvements and for equipment for use in patient care, with disposals of $108,714 . In addition, depreciation expense was $507,672 for an overall net decrease in capital assets of $255,018.

Volumes

- Skilled nursing days were 13,345 for the year as compared to 12,735 for the prior year allowing for an average daily census of 36.56 as compared to 34.89 for the prior year. Occupancy was at 61.97% as compared to 59.14% for the prior year.

- There were 31,720 face-to-face encounters qualifying as rural health care visits for the year as compared to 31,299 for the prior year. This resulted in an average daily patient visit rate of 125.87 as compared to 124.20 per open day for the prior year.

Gross Patient Charges

The District charges all its patients equally based on its established pricing structure for the services rendered. The District gross charges for the skilled nursing area for the year were $4,472,578 while the rural health care clinic charges were $16,354,710 for the year. The combined totals were $20,827,288 for the year as compared to $19,989,570 for the prior year.

Deductions From Revenue and Net Patient Service Revenues

Deductions from revenue are comprised of contractual allowances and provisions for bad debts. Contractual allowances are computed deductions based on the difference between gross charges and the contractually agreed upon rates of reimbursement with third party programs such as Medicare, Medi-Cal and Blue Cross. Deductions from revenue (as a percentage of gross patient charges) were 44.44% for the year as compared to 38.14% for the prior year.

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues decreased by $547,611 in fiscal year 2022 over the prior year due mainly to increased contractual allowances due to PPS reconciliations.

Operating Expenses

Total operating expenses were $15,289,853 for the year as compared to $14,146,481 for the prior year. Significant changes in expenses are as follows:

- A $449,095 increase in salaries, wages and benefits. Full time equivalents (FTE's) were 104.37 for the year resulting in a cost of $84,436 per FTE for the year as compared to $81,698 per FTE for the prior year. Increased health insurance costs made up most of the increase.

- Professional fees, supplies and purchased services increased by $175,910 due to volume and rate increases. All other expense changes were relatively minor when compared to the prior year.

Economic Factors and Next Fiscal Year's Budget

The District has prepared a budget for the fiscal year ending June 30, 2023. For fiscal year 2023, the District is budgeted to increase its net revenue due to several assumptions:

- A conservative increase in skilled nursing volumes for fiscal year 2023 was budgeted due to continued improvements in reimbursement.

- Operating expenses are expected to increase at a rate of percentage to match revenues. The District is committed to keeping expenses at a reasonable level as in the past.

Fiscal year 2023 will be a time for the District to continue to increase services for patients in the Soledad area. The effort by the Soledad community to support the District is a priority for the District's continued operational existence. Efforts will be made to become more efficient at operating the day-to-day needs of a changing healthcare mission within Soledad.

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
Soledad Community Health Care District
Soledad, California

Opinion

We have audited the accompanying financial statements of the Soledad Community Health Care District, a district healthcare provider (the District) which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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 Hospital'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 Hospital'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 analyzed the effects of GASB 87 for the year beginning July 1, 2021 and ending June 30, 2022 finding that it did not affect the District's financial reporting.

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.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 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.

JWT & Associates, LLP

Fresno, California
May 3, 2023

Statements of Financial Position

SOLEDAD COMMUNITY HEALTH CARE DISTRICT

	June 30	
Assets	2022	2021
Current assets:		
Cash and cash equivalents	$ 3,309,758	$ 1,500,003
Patient accounts receivable, net of allowances	1,223,274	1,233,012
Other receivables	85,125	949,786
Inventories	113,144	113,373
Prepaid expenses and deposits	105,838	100,700
Total current assets	4,837,139	3,896,874
Assets limited as to use	105	105
Capital assets, net of accumulated depreciation	6,571,241	6,826,259
Total assets	$ 11,408,485	$ 10,723,238
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	$ 131,986	$ 1,013,038
Accounts payable and accrued expenses	431,440	329,547
Accrued payroll and related liabilities	637,432	617,209
Estimated third party payor settlements	3,713,702	3,818,666
Total current liabilities	4,914,560	5,362,150
Debt borrowings, net of current maturities	3,939,617	351,384
Total liabilities	8,854,177	5,713,534
Net position		
Invested in capital assets, net of related debt	6,377,951	5,551,422
Restricted, by bond indenture agreements for debt service	105	105
Unrestricted (deficit)	(3,823,748)	(541,823)
Total net position	2,554,308	4,593,394
Total liabilities and net position	$ 11,408,485	$ 10,723,238

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

SOLEDAD COMMUNITY HEALTH CARE DISTRICT

	Year Ended June 30	
	2022	2021
Operating revenues		
Net patient service revenue	$ 11,572,130	$ 12,119,741
Other operating revenue	695,930	125,022
Total operating revenues	12,268,060	12,244,763
Operating expenses		
Salaries and wages	6,650,789	7,026,930
Employee benefits	2,161,778	1,336,542
Professional and other fees	3,110,600	2,613,687
Supplies	1,314,544	1,690,733
Purchased services	323,083	267,897
Utilities and phone	467,207	304,663
Rents and leases	40,093	54,301
Insurance	347,267	299,671
Depreciation and amortization	507,672	261,241
Other operating expenses	366,820	290,816
Total operating expenses	15,289,853	14,146,481
Operating income (loss)	(3,021,793)	(1,901,718)
Nonoperating revenues (expenses)		
District tax revenues	370,065	363,046
Investment income	587	762
Interest expense	(119,104)	(71,462)
Loss on disposal of assets		
Grants and contributions	731,159	1,888,874
Total nonoperating revenues (expenses)	982,707	2,181,220
Increase in net position	(2,039,086)	279,502
Net position at beginning of the year	4,593,394	4,313,892
Net position at end of the year	$ 2,554,308	$ 4,593,394

See accompanying notes and auditor's report

Statements of Cash Flows

SOLEDAD COMMUNITY HEALTH CARE DISTRICT

	Year Ended June 30	
	2022	2021
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	$ 10,619,583	$ 11,854,310
Cash received from operations, other than patient services	692,285	121,377
Cash payments to suppliers and contractors	(8,034,408)	(7,021,309)
Cash payments to employees and benefit programs	(6,630,566	(7,011,777
Net cash (used in) operating activities	(1,627,479)	(2,057,399)
Cash flows from noncapital financing activities:		
District tax revenues	370,065	363,046
Grants and contributions	731,159	1,888,874
Net cash provided by (used in) noncapital financing activities	1,101,224	2,251,920
Cash flows from capital and related financing activities:		
Purchase of capital assets and other	(252,654)	(989,487)
Proceeds from debt borrowings	4,058,376	1,167,528
Principal payments on debt borrowings	(1,351,195)	(429,306)
Interest on debt borrowings, net of capitalized interest	(119,104)	(71,462)
Net cash provided by (used in) capital financing activities	2,335,423	(322,727)
Cash flows from investing activities:		
Net change in assets limited as to use		(2)
Interest received from investments, net of capitalized interest	587	762
Net cash provided by (used in) investing activities	587	760
Net increase (decrease) in cash and cash equivalents	1,809,755	(127,446)
Cash and cash equivalents at beginning of year	1,500,003	1,627,449
Cash and cash equivalents at end of year	$ 3,309,758	$ 1,500,003

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

SOLEDAD COMMUNITY HEALTH CARE DISTRICT

	Year Ended June 30	
	2022	2021
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (3,021,793)	$ (1,901,718)
Adjustments to reconcile operating income to net cash (used in) operating activities:		
Depreciation and amortization	507,672	261,241
Provision for uncollectible accounts	24,967	19,487
Changes in operating assets and liabilities:		
Patient accounts receivables	(15,229)	(432,599)
Other receivables	864,661	(860,966)
Inventories	229	9,064
Prepaid expenses and deposits	(5,138)	5,562
Accounts payable and accrued expenses	101,893	(177,625)
Accrued payroll and related liabilities	20,223	15,153
Estimated third party payor settlements	(104,964)	1,005,002
Net cash provided by (used in) operating activities	$ (1,627,479)	$ (2,057,339)

See accompanying notes and auditor's report

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Soledad Community Health Care District (the District) is a public entity healthcare district 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 is located in Soledad, California and operates a 59-bed skilled nursing facility and a rural health care clinic. The District provides health care services primarily to those who reside in the 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 District 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: 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.

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 and Investments: 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.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Contractual allowances are the difference between the full gross charge by the District and the contracted amount of payment with third-party payors. Uncollectible accounts (or provisions for bad debts) arise when a private patient is responsible for payment on an account and that payment is in doubt as to whether or not it might be collected. Significant concentrations of patient accounts receivable are discussed further in these footnotes.

Inventories: Inventories are consistently reported from year to year at cost determined on a combination of first-in, first-out (FIFO) basis for certain types of inventory and replacement values which are not in excess of market, for other types of inventory. Inventories consist mainly of medical supplies sold to patients, pharmaceuticals, and dietary supplies.

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. During periods of asset construction, the District capitalizes interest cost net of any interest earned on temporary investments of the proceeds set aside for construction projects funded by tax-exempt debt borrowings. Interest expense is also capitalized for projects financed with operating funds.

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. As of June 30, 2022 and 2021, the District has determined that no capital assets are significantly impaired.

Compensated Absences: The District's employees earn paid-time-off (PTO) benefits at varying rates depending on years of service. PTO benefits can accumulate up to specified maximum levels. Employees are paid for PTO accumulated benefits if they leave either upon termination or before retirement. Accrued PTO liabilities as of June 30, 2022 and 2021 were $275,490 and $287,071, respectively.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources: When present, deferred outflows of resources (formerly termed bond issue costs) are comprised of deferred financing cost of the issuance of certain debt. Amortization of these issuance costs is computed by the straight-line method over the life of the repayment agreements. For current and advance refundings which result in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized deferred financing costs, is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, in accordance with GASB 23. Amortization expense was $-0-and $-0- for the years ended June 30, 2022 and 2021, 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. In the case of employee health coverage, the District is self-insured for those claims and is discussed further in the footnotes.

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 the 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 does not meet the definition or criteria of the previous two categories

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

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 SIGNIFICANT 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. Generally, the District bills the patients and third-party payors several days after the patient receives healthcare services at the District. Revenue is recognized as services are rendered.

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per day, discharge or visit, reimbursed costs, discounted charges and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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.

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 analyzed the possible impact of GASB 87 noting that there were no leases which significantly qualified under this new pronouncement.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 service revenues and then written off entirely as an adjustment to net patient service revenues.

District Tax Revenues: The District receives approximately 3% of its 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.

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2022 and 2021, the District had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounting to $3,303,492 and $1,493,743, 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.

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, 2022 and 2021.

NOTE C - NET PATIENT SERVICE REVENUES

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

Medicare: Payments for skilled nursing services rendered to Medicare program beneficiaries are based on prospectively determined rates based on a national patient classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. Outpatient services at the rural health clinic are reimbursed under cost based the cost-based methodology. Certain reimbursement areas are still subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2022, cost reports through June 30, 2019 have been audited or otherwise final settled. The District has recorded a receivable of $44,763 as of year end for all open settlements.

Medi-Cal: For traditional Medi-Cal services, payments for skilled nursing services rendered to patients are made based on prospectively determined rates while outpatient payments are based on pre-determined fee schedule. The District is paid for rural health clinic under a prospective payment system (PPS) with final settlement determined after submission of annual PPS reconciliation forms and audits thereof by Medi-Cal. At June 30, 2022, cost reports through June 30, 2018, have been audited or otherwise final settled. The District has recorded a liability of $3,758,465 due the State as of year end for all open settlements.

Other: Payments for services rendered to other than Medicare and 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.

Net patient service revenues summarized by payor are as follows:

	2022	2021
Skilled nursing services daily routine services	$ 4,472,578	$ 4,045,254
Rural health care clinic and ancillary services	16,354,710	15,547,678
Gross patient service revenues	20,827,288	19,592,932
Less contractual allowances and provision for bad debts	(9,255,158)	(7,473,191)
Net patient service revenues	$ 11,572,130	$ 12,119,741

Medicare and Medi-Cal revenue accounts for approximately 75% of the District's gross patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE D - CONCENTRATION OF CREDIT RISK

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 significant concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2022 and 2021 are as follows:

	2022	2021
Skilled nursing center	$ 252,430	$ 693,688
Rural health care clinic	3,041,010	1,880,367
Gross patient accounts receivable	3,293,440	2,574,055
Less allowances for contractual adjustments and bad debts	(2,070,167)	(1,341,043)
Net patient accounts receivable	$ 1,223,273	$ 1,233,012

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2022 and 2021 are comprised of the following:

	2022	2021
Due from the Foundation	$ 76,607	$ 80,252
Grant receivable	8,518	869,521
Interest receivable		13
	$ 85,125	$ 949,786

There are no advances to physicians in the form of guarantees or business loans which is generally a common practice in rural health care areas in order to aid in recruiting physicians who may require assistance in establishing their local practice. The District has not entered into these types of agreements as an aid to recruitment and do not plan on entering into these types of agreements in the near future.

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2022 and 2021 are comprised of the following:

	2022	2021
Internally designated or restricted for specific purposes:		
Cash in banks and other financial institutions held in restriction for patient residents	$ 105	$ 105
Total cash and cash equivalents	$ 105	$ 105

NOTE G - RELATED PARTY TRANSACTIONS

The Soledad Community Health Care District Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501 (c) (3) to solicit contributions for the benefit of the health care needs for the surrounding community in which the District is located . It is not considered a component unit of the District as it's mission is community wide and not restricted solely to the District. Foundation's funds are donated to the District in amounts and in periods determined by the Foundation's Board of Directors, who may also restrict the use of funds for District property and equipment replacement or expansion or other specific purposes. Donations by the Foundation to the District were $16,649 and $-0- for the years ended June 30, 2022 and 2021, respectively. The Foundation's net assets (deficit) for the years ended June 30, 2022 and 2021 were $893 and $(8,307), respectively.

NOTE H - EMPLOYEES' RETIREMENT PLAN

The District offers a 403(b) retirement compensation plan (the Plan) to eligible employees. The Plan provides certain pension benefits to its participants. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). District has allowed any employee be become eligible to participate in the Plan as of any enrollment date following the date he or she becomes employed by the District. All contributions are voluntary by the employee and they are 100% vested at inception. The District may make a discretionary nonelective contribution to the Plan each year for the benefit of the employees

NOTE I - CAPITAL ASSETS

Capital assets rolled forward to June 30, 2022 and 2021 are as follows:

	Balance at June 30, 2021	Transfers & Additions	Retirements	Balance at June 30, 2022
Land and land improvements	$ 8,148			$ 8,148
Buildings and improvements	10,704,910			10,704,910
Equipment and vehicles	2,922,823	$ 243,205	$ (138,785)	3,027,243
Construction-in-progress	22,681	118,163		140,844
Totals at historical cost	13,658,562	361,368	(138,785)	13,881,145
Less accumulated depreciation for:				
Building and improvements	(4,812,891)	(306,684)		(5,119,575)
Equipment and vehicles	(2,019,412)	(170,917)	30,071	(2,190,329)
Total accumulated depreciation	(6,832,303)	(507,672)	30,071	(7,309,904)
Capital assets, net	$ 6,826,259	$ (146,304)	$ (108,714)	$ 6,571,241

	Balance at June 30, 2020	Transfers & Additions	Retirements	Balance at June 30, 2021
Land and land improvements	$ 8,148			$ 8,148
Buildings and improvements	6,785,448	$ 3,919,462		10,704,910
Equipment	2,268,999	653,824		2,922,823
Vehicles	3,606,480	(3,583,799)		22,681
Totals at historical cost	12,669,075	989,487		13,658,562
Less accumulated depreciation for:				
Building and improvements	(4,665,160)	(147,731)		(4,812,891)
Equipment	(1,905,902)	(113,510)		(2,019,412)
Total accumulated depreciation	(6,571,062)	(261,241)		(6,832,303)
Capital assets, net	$ 6,098,013	$ 728,246	$	$ 6,826,259

NOTE J - DEBT BORROWINGS

As of June 30, 2022 and 2021, debt borrowings are as follows:

	2022	2021
Loan payable to a bank; principal due March 24, 2022; interest due monthly and charged at 4.75%; secured by District assets:	$ -0-	$ 250,000
Loan payable to a bank; principal and interest due monthly in the amount of $5,763.46; interest charged at 4.99%; final payment due July 15, 2023; secured by District assets:	3,878,313	201,994
Loan payable to a bank; principal due March 24, 2022; interest due monthly and charged at 4.25%; secured by District assets:	-0-	600,000
Capital lease payable to a bank; principal and interest due monthly in the amount of $346; interest charged at bank's rate; final payment due September 15, 2026; secured by District assets:	12,170	-0-
Capital lease payable to a bank; principal and interest due monthly in the amount of $613; interest charged at bank's rate; final payment due October 15, 2026; secured by District assets:	24,625	-0-
Capital lease payable to a bank; principal and interest due monthly in the amount of $2,004.75; interest charged at bank's rate; final payment due June 20, 2024; secured by District assets:	156,495	72,171
Capital lease payable to a bank; principal and interest due monthly in the amount of $6,380.39; interest charged at 5.479%; final payment due September 1, 2024; secured by District assets:	-0-	216,756
Other minor debt borrowings:	-0-	23,501
	4,071,603	1,364,422
Less current maturities of debt borrowings	(131,986)	(1,013,038)
	$ 3,939,617	$ 351,384

Future principal maturities for debt borrowings for the next four succeeding years are: $131,986 in 2023; $133,789 in 2024; $134,963 in 2025; and $136,325 in 2026.

NOTE K - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2022, the District has $140,844 recorded construction-in-progress representing cost capitalized for new building or remodeling expansion projects on the District's premises. As of June 30, 2021, there was no interest expense related to construction of any District projects that was capitalized.

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, 2022 and 2021 was $40,093 and $54,301, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2022, 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, 2022 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Medical Malpractice Insurance: The District maintains commercial malpractice liability insurance coverage under a claims made and reported policy covering losses up to $1 million per claim and $3 million in the annual aggregate, with a per claim deductible of $10,000. The District plans to maintain the insurance coverage by renewing its current policy, or by replacing it with equivalent insurance.

Workers Compensation Program: The District is a participant in the Association of California Hospital District's Alpha Fund (the Fund) which administers a self-insured worker's compensation plan for participating hospital employees of its member hospitals. 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.

Regulatory Environment: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE K - COMMITMENTS AND CONTINGENCIES (continued)

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management believes the District is in compliance with HIPAA as of June 30, 2022 and 2021.

NOTE L - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2022 and 2021:

		Investment Maturities in Years		
As of June 30, 2022	Fair Value	Less than 1	1 to 5	Over 5
Local agency investments fund	$ 15,898	$ 15,898		
Total investments	$ 15,898	$ 15,898	$	$

		Investment Maturities in Years		
As of June 30, 2021	Fair Value	Less than 1	1 to 5	Over 5
Local agency investment fund	$ 15,854	$ 15,854		
Total investments	$ 15,854	$ 15,854	$	$

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 15 years. 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 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.

NOTE L -INVESTMENTS (continued)

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. The District's investment policy for corporate bonds and notes is to invest in companies with total assets in excess of $500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

Custodial Credit Risk: 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.

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 concentrations of over 5% in government-backed 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 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 M - SIGNIFICANT UNUSUAL TRANSACTIONS

CARES Act Funding - The COVID-19 pandemic, whose effects first became known in January 2020, had a broad and negative effect disrupting both the domestic and global economies. During the fiscal years 2022 and 2021, the District noted the adverse impact on District operations with revenue declines and additional labor, supply and other costs. These declines were a direct result of the impact of the pandemic, forcing federal and state requirements to restrict travel, require social distancing, and enhanced infection control practices, leading to reduced patient contacts and a reduced availability of on-site workforce.

The District has received COVID-19 related funding due to the CARES Act. Usage of these funds are reported via the "Reporting Portal" developed by the federal department of Health Resources & Services Administration (HRSA). The first report was submitted at the end of November, 2021 where the District reported on the usage of the first period of funding of $780,312 received starting from April 10, 2020 through June 30, 2020. Other funds received after June 30, 2020 were reported as required through the same HRSA portal.

NOTE N - PRIOR PERIOD ADJUSTMENT

During the audit it was noted that there had been an error in the original filing of the June 30, 2019 PPS reconciliation with the State of California whereas the liability had been understated by approximately $416,311. This adjustment had the effect of reducing the June 30, 2019 net position by $416,311, which amount then carried forward to reduce the beginning net position at July 1, 2021 by that same amount. Net position as of June 30, 2021 has been restated as a result.

NOTE O - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through May 3, 2023, 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
Soledad Community Health Care District
Soledad, 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 Soledad Community Health Care District (the District) as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 3, 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.

JWT & Associates, LLP

Fresno, California
May 3, 2023