



October 25, 2019

NOTICE

The Kaweah Delta Health Care District Board of Directors will meet in an Audit and Compliance Committee meeting at 4:00 PM on Monday, October 28, 2019 in the Kaweah Delta Medical Center – Acequia Wing – Executive Office Conference Room {400 W. Mineral King, Visalia}.

The Board of Directors of the Kaweah Delta Health Care District will meet in a Closed Audit and Compliance Committee meeting immediately following the 4:00 PM meeting on Monday, October 28, 2019 in the Kaweah Delta Medical Center – Executive Office - Acequia Wing Conference Room {400 W. Mineral King, Visalia} pursuant to Government Code 54956.9(d)(2).

All Kaweah Delta Health Care District regular board meeting and committee meeting notices and agendas are posted 72 hours prior to meetings in the Kaweah Delta Medical Center, Mineral King Wing entry corridor between the Mineral King lobby and the Emergency Department waiting room.

The disclosable public records related to agendas are available for public inspection at the Kaweah Delta Medical Center – Acequia Wing, Executive Offices (Administration Department) {1st floor}, 400 West Mineral King Avenue, Visalia, CA and on the Kaweah Delta Health Care District web page <http://www.kawahdelta.org>.

KAWEAH DELTA HEALTH CARE DISTRICT
Nevin House, Secretary/Treasurer

A handwritten signature in black ink that reads 'Cindy Moccio'.

Cindy Moccio
Board Clerk
Executive Assistant to CEO

DISTRIBUTION:
Governing Board
Legal Counsel
Executive Team
Chief of Staff
<http://www.kawahdelta.org/about/agenda.asp>

KAWEAH DELTA HEALTH CARE DISTRICT BOARD OF DIRECTORS AUDIT AND COMPLIANCE COMMITTEE

Monday, October 28, 2019

Kaweah Delta Medical Center – Acequia Wing
400 West Mineral King Avenue, Visalia CA
Executive Office Conference Room

ATTENDING: Directors; Herb Hawkins (Chair) & Lynn Havard Mirviss; Gary Herbst, CEO; Tom Rayner, Senior VP Chief Operating Officer; Malinda Tupper, VP Chief Financial Officer; Regina Sawyer, VP Chief Nursing Officer; Dennis Lynch, Legal Counsel; Ben Cripps, Compliance and Privacy Officer; Suzy Plummer, Director of Internal Audit; Sravan Sharma, Compliance Manager

GUESTS: Brian Conner, Moss Adams; John Feneis, Moss Adams; Justen Gomes, Moss Adams; Dianne Cox, VP Human Resources; Jennifer Stockton, Director of Finance; Lori Mulliniks, Finance and Accounting Manager

OPEN MEETING – 4:00 PM

Call to order – Herb Hawkins, Audit and Compliance Committee Chair

Public / Medical Staff participation – Members of the public wishing to address the Committee concerning items not on the agenda and within the subject matter jurisdiction of the Committee may step forward and are requested to identify themselves at this time. Members of the public or the medical staff may comment on agenda items after the item has been discussed by the Committee but before a Committee recommendation is decided. In either case, each speaker will be allowed five minutes.

1. **Annual Audited Financial Statement** – Report to Audit and Compliance Committee from Moss Adams relative to the annual audited financial statement for fiscal year 2018/2019 *Kaweah Delta; Malinda Tupper, VP & Chief Financial Officer and Jennifer Stockton, Director of Finance, Moss Adams; Brian Conner, Partner, John Feneis, Audit Manager and Justen Gomes*

Adjourn Open Meeting – Herb Hawkins, *Audit and Compliance Committee Chair*

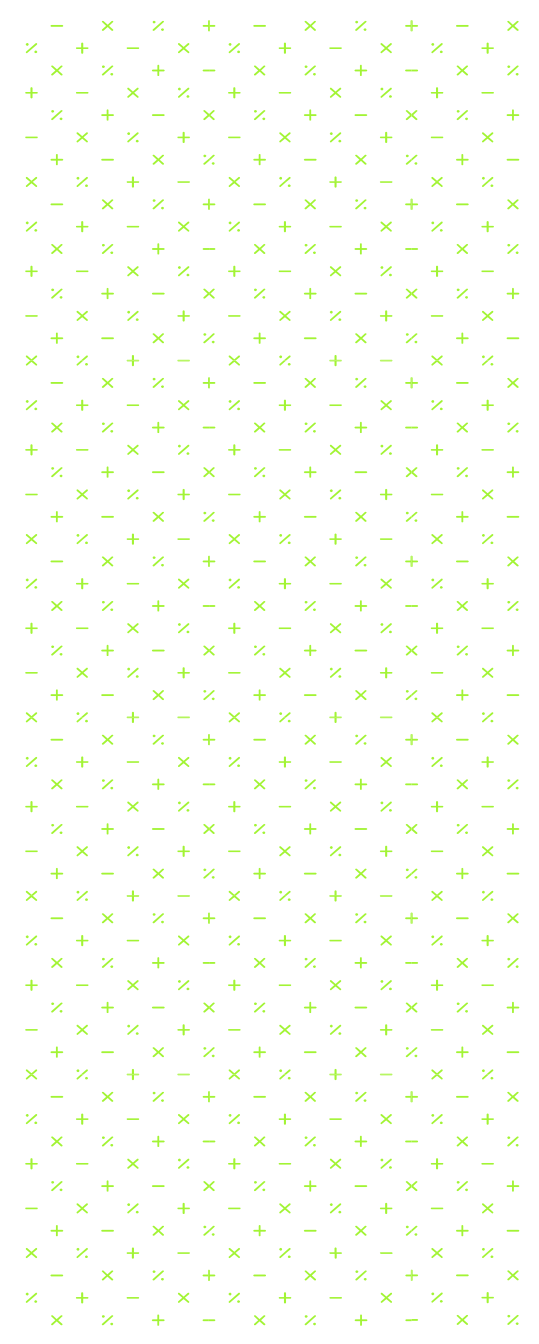
In compliance with the Americans with Disabilities Act, if you need special assistance to participate at this meeting, please contact the Board Clerk (559) 624-2330. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to the Kaweah Delta Health Care District Board of Directors meeting.

Kaweah AC Presentation Final Draft 6.19- 10-18-19



Kaweah Delta Healthcare District

2019 Audit Results



AUDIT COMMITTEE

Kaweah Delta Health Care District

Dear Audit Committee Members:

Thank you for your continued engagement of Moss Adams LLP. We are pleased to have the opportunity to meet with you to discuss the results of our audit of the consolidated financial statements of Kaweah Delta Health Care District (“the District”) for the year ended June 30, 2019.

The accompanying report, which is intended solely for the use of the Audit Committee and management, presents important information regarding the Kaweah Delta Health Care District consolidated financial statements and our audit that we believe will be of interest to you. It is not intended and should not be used by anyone other than these specified parties.

We conducted our audit with the objectivity and independence that you expect. We received the full support and assistance of the Kaweah Delta Health Care District personnel. We are pleased to serve and be associated with the Kaweah Delta Health Care District as its independent public accountants and look forward to our continued relationship.

We look forward to discussing our report or any other matters of interest with you during this meeting.



Agenda

- Auditor Opinion and Report
- Communication with Those Charged with Governance

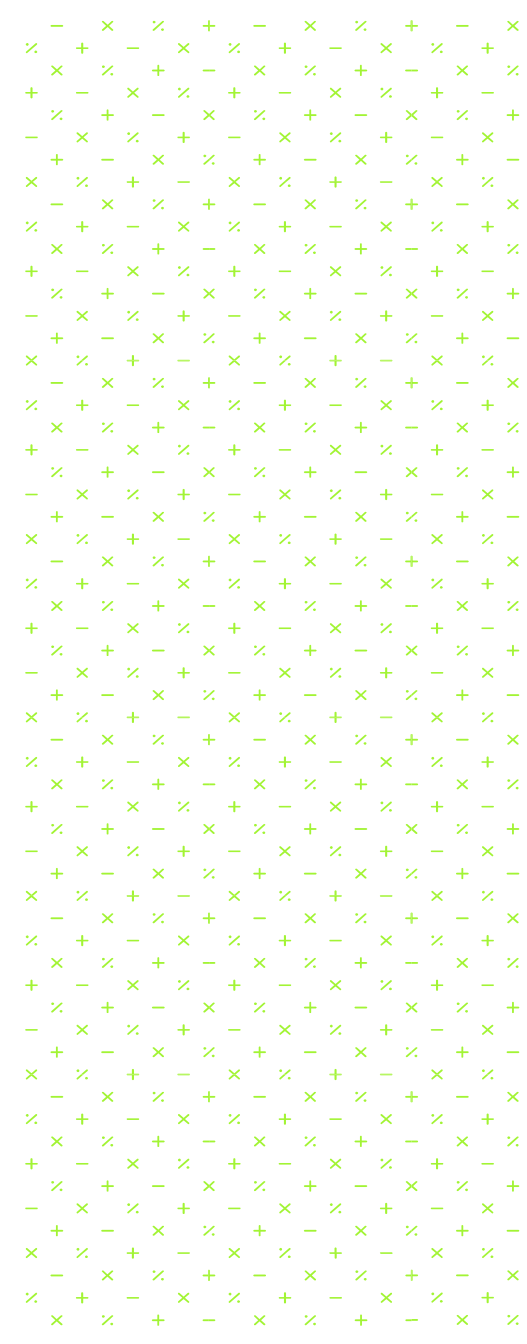




MOSSADAMS

Auditor Opinion & Report

Better Together: Moss Adams & Kaweah Delta Health Care District



Scope of Services

We have performed the following services for Kaweah Delta Health Care District:

- **Annual consolidated financial statement audit for the year ending June 30, 2019**

We have also performed the following nonattest services:

- **Assisted in the drafting of the consolidated financial statements of Kaweah Delta Health Care District**



Auditor Report on the Financial Statements

Unmodified Opinion

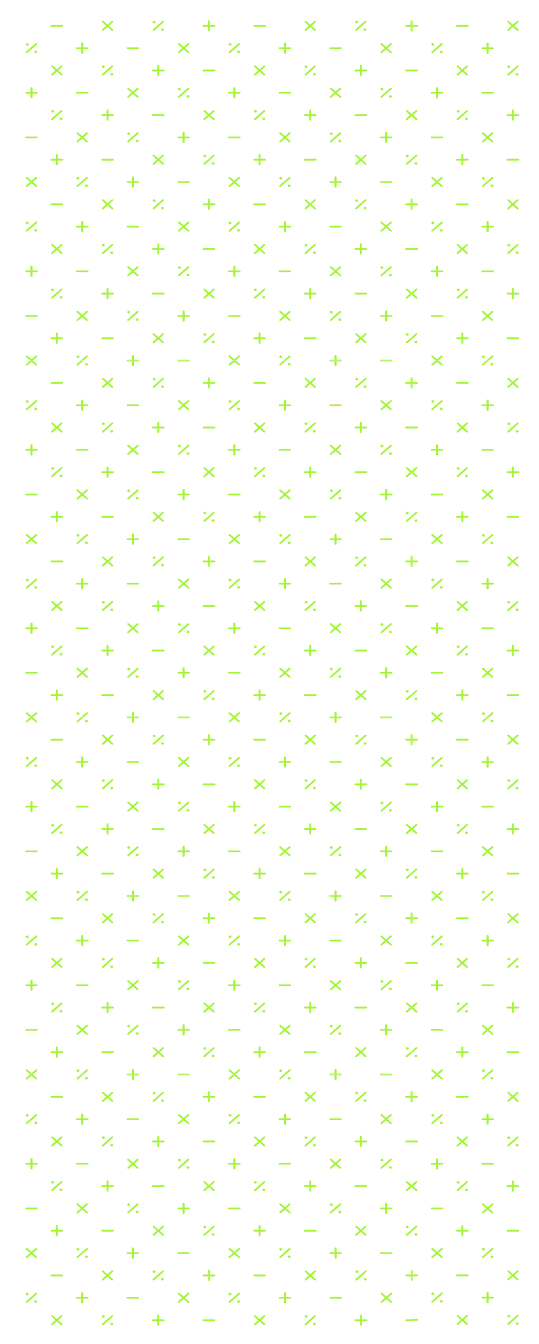
- **Consolidated financial statements are presented fairly and in accordance with United States Generally Accepted Accounting Principles (US GAAP)**





Communication with Those Charged with Governance

Better Together: Moss Adams & Kaweah Delta Health Care District



Matters to Be Communicated to the Governing Body

Our responsibility with regard to the financial statement audit under U.S. auditing standards:

As stated in our engagement letter dated September 4, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.



Matters to Be Communicated to the Governing Body

Our responsibility with regard to the financial statement audit under U.S. auditing standards:

Our responsibility is to plan and perform the audit in accordance with generally accepted auditing standards issued by the AICPA and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement.



Our Responsibility

Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards.

1

To express our opinion on whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, and in accordance with U.S. GAAP. However, our audit does not relieve you or management of your responsibilities.

2

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts, and design the audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement.

3

To consider internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.

4

To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.



Planned Scope & Timing of the Audit

It is the auditor's responsibility to determine the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient and appropriate audit evidence and to communicate with those charged with governance and overview of the planned scope and timing of the audit.

OUR COMMENTS

- The planned scope and timing of the audit was communicated to the District's audit committee at the audit entrance meeting and was included in the engagement letter for the year ended June 30, 2019



Significant Accounting Policies & Unusual Transactions

The auditor should determine that the audit committee is informed about the initial selection of and changes in significant accounting policies or their application. The auditor should also determine that the audit committee is informed about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

OUR COMMENTS

- Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the footnotes to the consolidated financial statements. Throughout the course of an audit, we review changes, if any, to significant accounting policies or their application, and the initial selection and implementation of new policies. There were no changes to significant accounting policies for the year ended June 30, 2019.
- We believe management has selected and applied significant accounting policies appropriately and consistent with those of the prior year.



Management Judgements & Accounting Estimates

The audit committee should be informed about the process used by management in formulating particularly sensitive accounting estimates and about the basics for the auditor's conclusions regarding the reasonableness of those estimates.

OUR COMMENTS

- Management's judgements and accounting estimates are based on knowledge and experience about past and current events and assumptions about future events. We apply audit procedures to management's estimates to ascertain whether the estimates are reasonable under the circumstances and do not materially mistake the consolidated financial statements.
- Significant management estimates impacted the consolidated financial statements including the following: **accounts receivable, 3rd party settlements, risk management liabilities, post-retirement liabilities, and contingencies.**
- We deem them to be reasonable.



Lookback Analysis (Acute AR only)

	2017	2018	2019
Net Accounts Receivable	\$81,731,552	\$126,919,215	\$130,902,217
Collected 2 months after 6/30	\$(46,935,213)	\$(41,961,673)	\$(77,982,087)
% Collected 2 months after 6/30	57%	33%	60%
Exposure after 2 month's collections	\$34,796,339	\$84,957,592	\$52,920,130
Collected after 14 months	\$(78,280,920)	\$(121,247,188)	N/A
% Collected after 14 months	97%	96%	N/A



Management Judgments & Accounting Estimates

Our views about the quantitative aspects of the entity's significant accounting policies, accounting estimates, and financial statement disclosures.

OUR COMMENTS

- **The disclosures in the consolidated financial statements are clear and consistent. Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users, however we do not believe any of the footnotes are particularly sensitive.**



Significant Audit Adjustments & Unadjusted Differences Considered by Management to Be Immaterial

The audit committee should be informed of all significant audit adjustments arising from the audit. Consideration should be given to whether an adjustment is indicative of a significant deficiency or a material weakness in the District's internal control over financial reporting, or in its process for reporting interim financial information, that could cause future consolidated financial statements to be materially misstated.

The audit committee should also be informed of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole.

OUR COMMENTS

- There were no corrected or uncorrected audit adjustments.



Deficiencies in Internal Control

Any material weaknesses and significant deficiencies in the design or operation of internal control that came to the auditor's attention during the audit must be reported to the audit committee.

OUR COMMENTS

- **Material weakness**
 - None noted
- **Significant deficiencies**
 - Nothing to communicate



Difficulties Encountered in Performing the Audit

The audit committee should be informed of any significant difficulties encountered in dealing with management related to the performance of the audit, including disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the District's consolidated financial statements, or the auditor's report.

OUR COMMENTS

- **No significant difficulties were encountered during our audit.**
- **We are pleased to report that there were no disagreements with management.**



Material Uncertainties Related to Events & Conditions/ Fraud & Noncompliance with Laws and Regulations

Any doubt regarding the entity's ability to continue, as a going concern, should be communicated to the audit committee.

Fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the consolidated financial statements should be communicated. We are also required to communicate any noncompliance with laws and regulations involving senior management that come to our attention, unless clearly inconsequential.

OUR COMMENTS

- No such matters came to our attention.
- We have not become aware of any instances of fraud or noncompliance with laws and regulations.



Other Material Written Communications

The audit committee should be informed of any significant difficulties encountered in dealing with management related to the performance of the audit, including disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the District's consolidated financial statements, or the auditor's report.

OUR COMMENTS

- Available upon request.
- Other than the engagement letter, management representation letter, and communication to those charged with governance, there have been no other significant communications.



Management's Consultation with Other Accountants

In some cases, management may decide to consult about auditing and accounting matters. If management has consulted with other accountants about an auditing and accounting matter that involves application of an accounting principle to the District's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

OUR COMMENTS

- **We are not aware of any significant accounting or auditing matters for which management consulted other accountants.**



Potential Effect on the Consolidated Financial Statements of Any Significant Risks & Exposures

The audit committee should be adequately informed of the potential effect on financial statements of significant risks and exposures and uncertainties that are disclosed in the financial statements.

OUR COMMENTS

- **The District is subject to potential legal proceedings and claims that arise in the ordinary course of business, which are disclosed in the notes to the financial statements.**

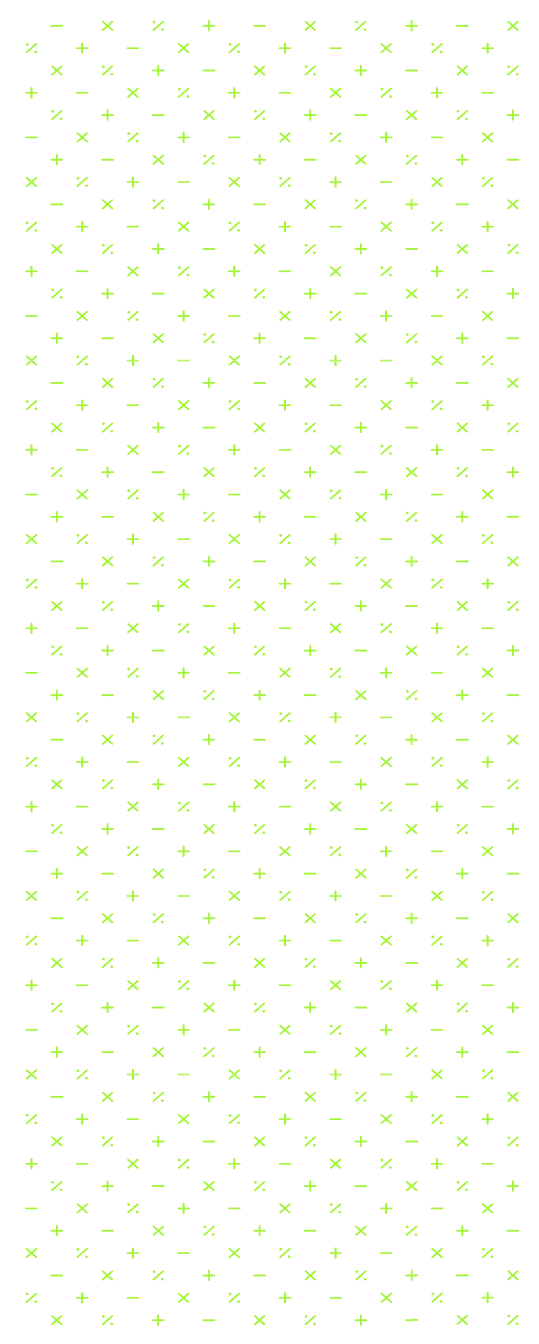




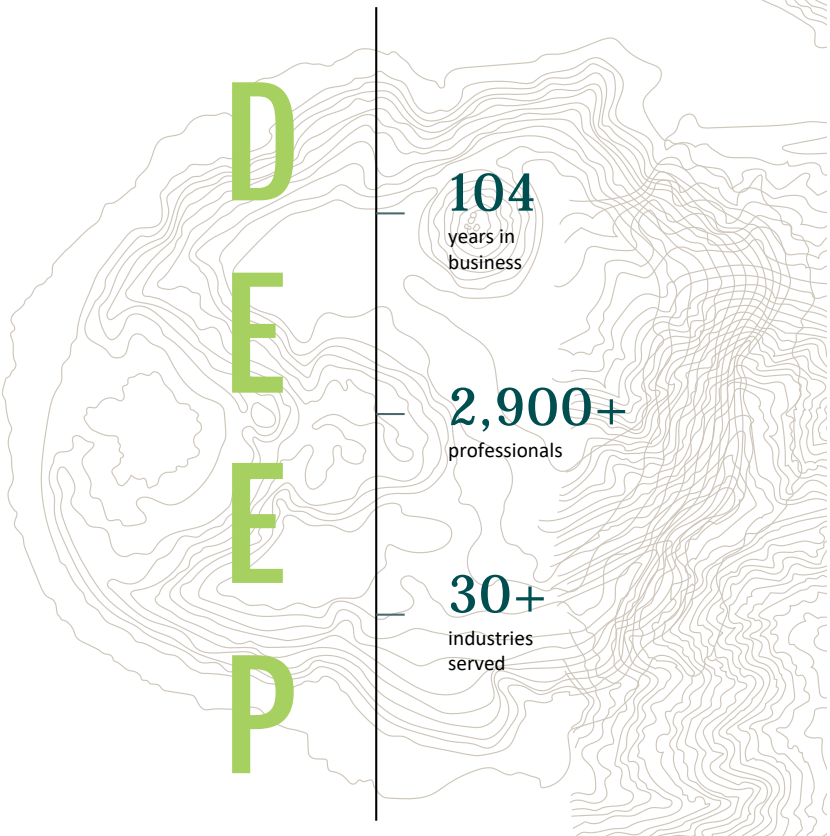
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Industry Focus

Better Together: Moss Adams & Kaweah Delta Health Care District



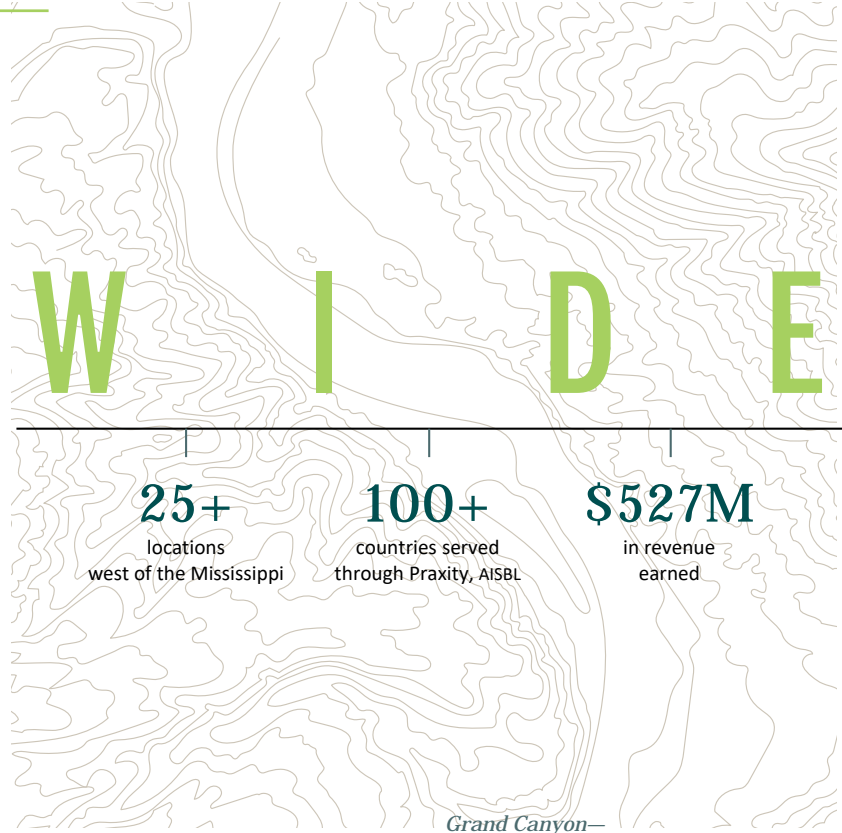
Our Expertise



*Crater Lake—
A monument to perseverance, North America's
deepest lake filled to 1,949 feet over 720 years.*

Data as of November 2017

Our Reach



*Grand Canyon—
At 277 miles long and up to 18 miles
wide, this icon serves as a testament
to determination and time.*

Data as of November 2017

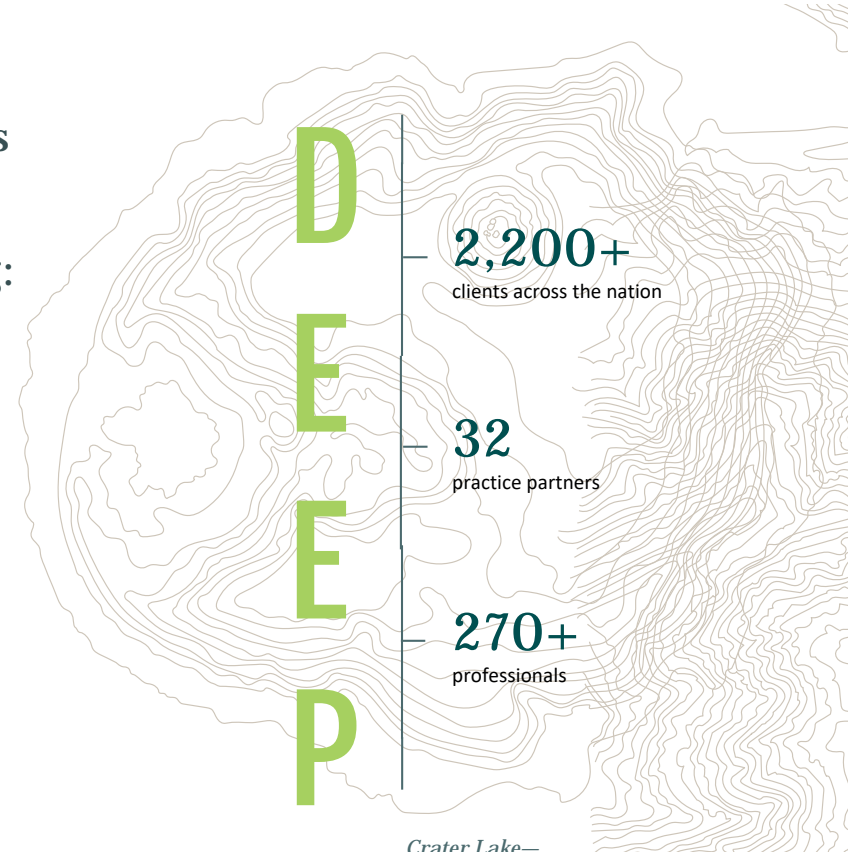


Health Care Industry Experience

Our health care professionals dedicate their careers to serving the industry.

We cover the full spectrum of health care including:

- Hospitals and health systems
- Independent practice associations
- Medical groups
- Community health centers
- Behavioral health organizations
- Long-term care
- Surgery centers
- Knox Keene licensed health plans
- Health care ancillary services



*Crater Lake—
A monument to perseverance, North
America's deepest lake filled to 1,949 feet over
720 years.*

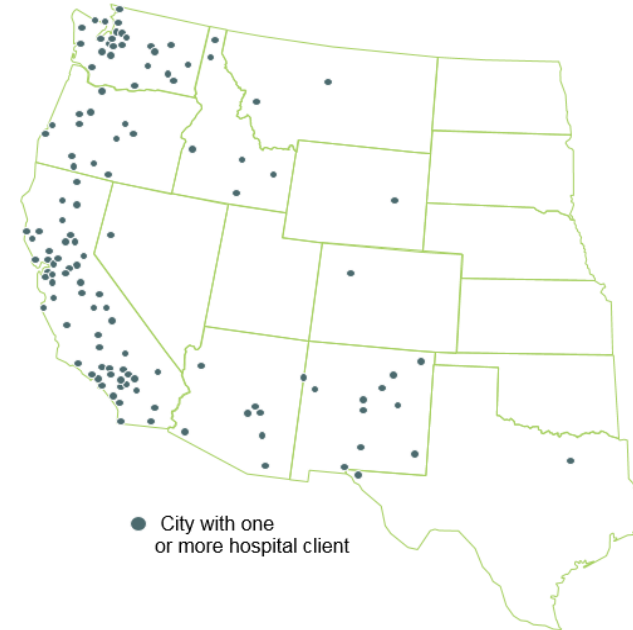
Data as of November 2017



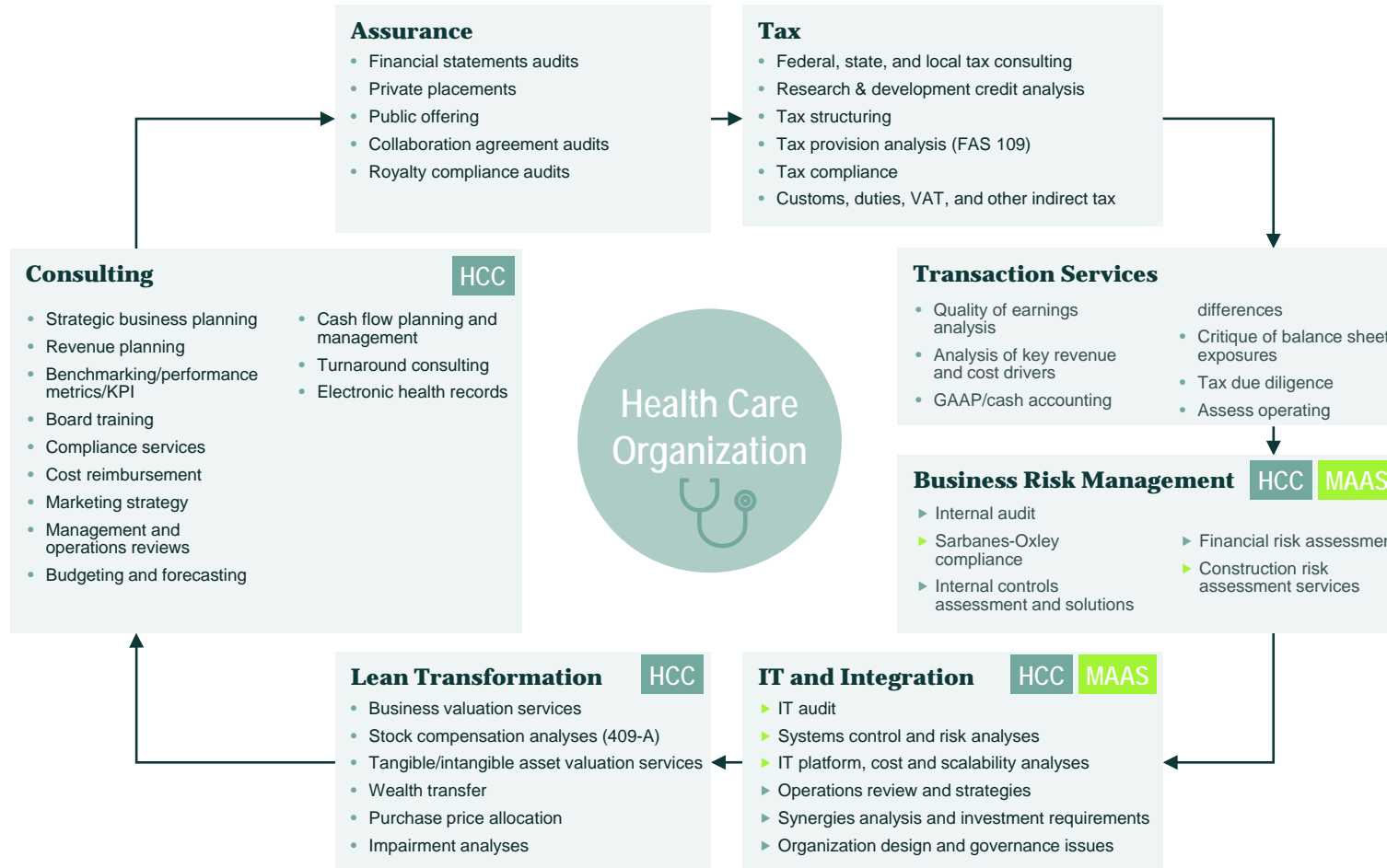
Hospital and Health Systems

Moss Adams serves more than 200 hospitals and health systems, ranging in size from 15 to over 1,000 beds. We offer tailored solutions and health care consulting services to our for-profit, government, and not-for-profit entities. Our clients include:

- Integrated health systems
- University-based hospitals
- Tertiary-care teaching hospitals
- Community and sole community hospitals
- District hospitals
- Critical access hospitals
- Pediatric hospitals



Services Overview: How This All Fits Together



Additional Services

We offer a full range of services and specializations that span accounting, consulting, and wealth management to suit your specific needs.



Accounting
ASSURANCE
Financial Statement Audits
Employee Benefit Plans
Public Company & SEC
Internal Audit
Outsourced Accounting
Contract Compliance
Sustainability
TAX
Accounting for Income Taxes (ASC 740)
Accounting Methods
Compensation & Benefits
Credits & Incentives
International
State & Local
Controversy & Dispute Resolution
Tax Structuring
Transfer Pricing

Consulting
IT
Compliance
Cybersecurity
Assessment & Planning
Development & Integration
STRATEGY & OPERATIONS
Business Planning
Performance Audits
Succession Planning
TRANSACTIONS
Due Diligence
Investment Banking
M&A Tax
Restructuring
Valuations

Wealth Management
INDIVIDUAL
Tax
Financial Planning
Investments
Family Office
INSTITUTIONAL
Investments
Insurance

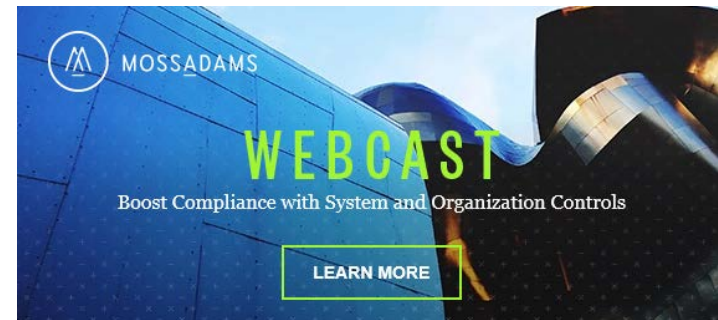
Insights and Resources

In today's fast-paced world, we know how precious your time is. We also know that knowledge is key. These resources offer what you need to know, when you need to know it, and is presented in the format that fits your life.

We'll keep you informed to help you stay abreast of critical industry issues.

Moss Adams closely monitors regulatory agencies, participates in industry and technical forums, and writes about a wide range of relevant accounting, tax, and business issues to keep you informed.

We also offer CPE webinars and events which are archived and available on demand, allowing you to watch them on your schedule.



Connect With Us

In today's fast-paced world, we know how precious your time is. We also know that knowledge is key. These resources offer what you need to know, when you need to know it, and is presented in the format that fits your life.



LinkedIn: www.linkedin.com/company/moss-adams-llp



Twitter: [@Moss_Adams](https://twitter.com/Moss_Adams)



Subscribe to our emails: www.mossadams.com/subscribe



RSS feeds: www.mossadams.com/RSS



YouTube: <http://www.youtube.com/mossadamsllp>



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**THANK
YOU**



Kaweah FS Audit Final Draft 06.19-10.18.19

FINAL DRAFT

*Report of Independent Auditors
and Consolidated Financial Statements*

Kaweah Delta Health Care District

June 30, 2019 and 2018

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Kaweah Delta Health Care District Management's Discussion and Analysis June 30, 2019 and 2018

Kaweah Delta Health Care District's (the "District") discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position, and identify any material deviations from the financial plan (the approved budget). Unless otherwise noted, all discussion and analysis pertains to the District's financial condition, results of operations, and cash flows as of and for the year ended June 30, 2019. Please read it in conjunction with the consolidated financial statements in this report.

Financial Highlights

- The District's net position increased by \$28.8 million, or 6.4%, primarily attributable to the year's positive net income (income before contributions). Total assets increased by \$20.9 million, or 2.4%. Cash and investments decreased by \$19.4 million, or 5.5%, due to the use of bond assets held in trust for related capital projects. Capital assets increased \$10.2 million to \$336.4 million with \$40.5 million in net additions to buildings, equipment, and construction-in-progress, exceeding a \$30.3 million net increase in accumulated depreciation.
- The District's total operating revenues increased to \$751.6 million, a 5.7% increase from the prior year, while total operating expenses increased to \$731.9 million, an increase of 7.0%. The current year increase in total operating revenues is primarily due to a \$29.1 million increase in net patient services revenue and a \$7.0 million increase in premium revenue. This increase in net patient services revenue is attributable to an increase in Medi-Cal disproportionate share funding and other supplemental payment programs. The increase in premium revenue is due to an increase in the number of covered lives as well as an increase in the per member payment amount.
- Capital contributions to Kaweah Delta Hospital Foundation (the "Foundation") were \$861,000, a decrease of \$702,000, or 44.9%, from last year's contributions of \$1.6 million.
- During the fiscal year, the District made the following significant capital expenditures:
 - Construction costs related to the infill of the fifth and sixth floors and new second floor OB surgery suite in the Acequia Wing of the Medical Center
 - Construction costs related to the expansion of the emergency department
 - Implementation of a new information technology platform (Cerner)

The source of funding for these projects was derived from operations, capital contributions, bond project funds, and funds reserved for capital acquisition.

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

Required Consolidated Financial Statements

The consolidated financial statements of the District include: (a) a consolidated statement of net position, (b) a consolidated statement of revenues, expenses, and changes in net position, and (c) a consolidated statement of cash flows. The consolidated statement of net position includes information about the nature of the District's assets and liabilities and classifies them as current or noncurrent. It also provides the basis for evaluation of the capital structure of the District and for assessing the liquidity and financial flexibility of the District. The District's revenues and expenses are accounted for in the consolidated statement of revenues, expenses, and changes in net position. This statement measures the District's operations and can be used to determine whether the District has been able to recover all of its operating costs from patient services and other operating revenue sources. The primary purpose of the consolidated statement of cash flows is to provide information about the District's cash from operating, noncapital financing, capital and related financing, and investing activities. It provides answers to such questions as what were the District's sources of cash, what was cash used for, and what was the change in cash balances during the reporting period.

FINAL DRAFT

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

TABLE 1

Financial Analysis of the District

Condensed Consolidated Statements of Net Position

(in thousands)

A summary of the District's consolidated statements of net position is presented in Table 1 below:

	June 30, 2019	June 30, 2018	Dollar Change	Total % Change
Current and other assets	567,685	\$ 557,047	\$ 10,638	1.9%
Capital assets	336,359	326,106	10,253	3.1%
Total assets	904,044	883,153	20,891	2.4%
Deferred outflows	5,866	8,888	(3,022)	-34.0%
Total assets and deferred outflows	<u>\$ 909,910</u>	<u>\$ 892,041</u>	<u>\$ 17,869</u>	2.0%
Current and other liabilities	163,738	\$ 167,240	\$ (3,502)	-2.1%
Long-term debt outstanding	258,727	268,787	(10,060)	-3.7%
Total liabilities	422,465	436,027	(13,562)	-3.1%
Deferred inflows	8,206	5,544	2,662	48.0%
Net investment in capital assets	105,427	110,175	(4,748)	-4.3%
Restricted	30,090	29,668	422	1.4%
Unrestricted	343,722	310,627	33,095	10.7%
Total net position	<u>479,239</u>	<u>450,470</u>	<u>28,769</u>	6.4%
Total liabilities and net position	<u>\$ 909,910</u>	<u>\$ 892,041</u>	<u>\$ 15,207</u>	1.7%

As reflected in Table 1, net position increased \$28.8 million to \$479.2 million for the year ended June 30, 2019, primarily attributable to the District's \$27.9 million income before contributions.

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

TABLE 2

Financial Analysis of the District (continued)

Condensed Consolidated Statements of Net Position

(in thousands)

A summary of the District's consolidated statements of net position is presented in Table 2 below:

	June 30, 2018	June 30, 2017	Dollar Change	Total % Change
Current and other assets	\$ 557,047	\$ 543,199	\$ 13,848	2.5%
Capital assets	326,106	299,911	26,195	8.7%
Total assets	<u>883,153</u>	<u>843,110</u>	<u>40,043</u>	4.7%
Deferred outflows	<u>8,888</u>	<u>12,719</u>	<u>(3,831)</u>	-30.1%
Total assets and deferred outflows	<u>\$ 892,041</u>	<u>\$ 855,829</u>	<u>\$ 36,212</u>	4.2%
Current and other liabilities	\$ 167,240	\$ 157,443	\$ 9,797	6.2%
Long-term debt outstanding	268,787	276,831	(8,044)	-2.9%
Total liabilities	<u>436,027</u>	<u>434,274</u>	<u>1,753</u>	0.4%
Deferred inflows	5,544	-	5,228	501.2%
Net investment in capital assets	110,175	99,956	10,219	10.2%
Restricted	29,668	30,479	(811)	-2.7%
Unrestricted	310,627	291,120	19,507	6.7%
Total net position	<u>450,470</u>	<u>421,555</u>	<u>28,915</u>	6.9%
Total liabilities and net position	<u>\$ 892,041</u>	<u>\$ 855,829</u>	<u>\$ 36,212</u>	4.2%

As reflected in Table 2, net position increased \$28.9 million to \$450.5 million for the year ended June 30, 2018, primarily attributable to the District's \$27.4 million income before contributions.

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

TABLE 3

Financial Analysis of the District (continued)

Condensed Consolidated Statements of Revenues, Expenses, and Changes in Net Position

(in thousands)

The following table presents a summary of the District's revenues, expenses, and changes in net position:

	Years Ended		Dollar Change	Total % Change
	June 30, 2019	June 30, 2018		
Net patient services revenue	638,382	\$ 609,324	\$ 29,058	4.8%
Management services revenue	31,751	28,767	2,984	10.4%
Premium revenue	40,871	33,880	6,991	20.6%
Other operating revenue	40,569	39,012	1,557	4.0%
Total operating revenues	751,573	710,983	40,590	5.7%
Salaries and benefits	363,289	341,614	21,675	6.3%
Medical and other supplies	141,150	135,619	5,531	4.1%
Medical and other fees and services	145,592	129,715	15,877	12.2%
Maintenance, utilities, and rent	37,743	35,368	2,375	6.7%
Depreciation and amortization	30,851	25,681	5,170	20.1%
Other	13,285	15,762	(2,477)	-15.7%
Total operating expenses	731,910	683,759	48,151	7.0%
Operating income	19,663	27,224	(7,561)	-27.8%
Nonoperating revenues – net of nonoperating expenses	8,245	128	8,117	-6341.4%
Income before contributions	27,908	27,352	556	2.0%
Capital contributions	861	1,563	(702)	-44.9%
Change in net position	28,769	28,915	(146)	-0.5%
Net position – beginning of year	450,470	421,555	28,915	6.9%
Net position – end of year	\$ 479,239	\$ 450,470	\$ 28,769	6.4%

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

TABLE 4

Financial Analysis of the District (continued)

Condensed Consolidated Statements of Revenues, Expenses, and Changes in Net Position

(in thousands)

The following table presents a summary of the District's revenues, expenses, and changes in net position:

	Years Ended		Dollar Change	Total % Change
	June 30, 2018	June 30, 2017		
Net patient services revenue	\$ 609,324	\$ 557,885	\$ 51,439	9.2%
Management services revenue	28,767	27,142	1,625	6.0%
Premium revenue	33,880	27,908	5,972	21.4%
Other operating revenue	39,012	30,885	8,127	26.3%
Total operating revenues	<u>710,983</u>	<u>643,820</u>	<u>67,163</u>	10.4%
Salaries and benefits	341,614	319,340	22,274	7.0%
Medical and other supplies	135,619	123,079	12,540	10.2%
Medical and other fees and services	129,715	112,400	17,315	15.4%
Maintenance, utilities, and rent	35,368	33,132	2,236	6.7%
Depreciation and amortization	25,681	23,509	2,172	9.2%
Other	15,762	12,894	2,868	22.2%
Total operating expenses	<u>683,759</u>	<u>624,354</u>	<u>59,405</u>	9.5%
Operating income	27,224	19,466	7,758	39.9%
Nonoperating revenues – net of nonoperating expenses	<u>128</u>	<u>(699)</u>	<u>827</u>	-118.3%
Income before contributions	27,352	18,767	8,585	45.7%
Capital contributions	<u>1,563</u>	<u>1,660</u>	<u>(97)</u>	-5.8%
Change in net position	<u>28,915</u>	<u>20,427</u>	<u>8,488</u>	41.6%
Net position – beginning of year	<u>421,555</u>	<u>401,128</u>	<u>20,427</u>	5.1%
Net position – end of year	<u>\$ 450,470</u>	<u>\$ 421,555</u>	<u>\$ 28,915</u>	6.9%

Kaweah Delta Health Care District Management's Discussion and Analysis June 30, 2019 and 2018

Sources of Revenue

Operating revenues – For fiscal year 2019, the District derived 98.0% of its total revenues from operations. Operating revenues include, among other items, patient care revenue from Medicare, Medi-Cal, and other federal, state, and local government programs, and commercial insurance payers and patients; management services revenue associated with the District's forty-five percent (45%) ownership in SRCC-Medical Oncology, LLC, a management services organization providing staff, facilities, and administrative services to a medical oncology physician group; premium revenue associated with a capitated Medicare Advantage contract; cafeteria sales; PRIME program revenue; membership sales and dues from a District-owned health and fitness center; and minority ownership interests in a free-standing ambulatory surgery center, an assisted living center, and a memory care facility.

Nonoperating revenues – For fiscal year 2019, the District derived 2.0% of its total revenues from investment income and property tax revenue including that associated with the general obligation bonds as well as an allocation of general property taxes assessed by the County of Tulare on properties residing within the District's geographical boundaries.

Operating and Financial Performance

The following summarizes the District's consolidated statements of revenues, expenses, and changes in net position between 2019 and 2018:

Acute admissions decreased by 66, or 0.2%, to 26,950 and acute patient days increased by 422, or 0.3%, to 132,806. Skilled nursing and long-term subacute patient days remained consistent with 21,536 in 2019 and 21,537 in 2018. Outpatient equivalent patient days, a measure of overall outpatient activity, were 501 or 0.3%, below 2018 levels. Significant increases in laboratory, diagnostic radiology, CT and MRI procedures, as well as cardiac catheterization procedures were offset by decreases in emergency department and rural health clinic visits.

Net patient services revenue increased \$29.1 million, or 4.8%, in 2019. The increase in net patient services revenue can mainly be attributed an increase in Medi-Cal disproportionate share funding and other supplemental payment programs.

The District participates in various supplemental payment programs administered by the State of California as discussed in detail in the notes to the consolidated financial statements. In fiscal years 2019 and 2018, the District recognized net patient services revenue of \$12.0 million and \$12.3 million related to the QAF Managed Care Medi-Cal program; \$9.7 million and \$10.1 million related to the AB113 IGT FFS Medi-Cal Inpatient program; and \$16.5 million and \$4.6 million related to the Rate Range IGT Managed Medi-Cal program, respectively.

Management services revenue increased \$3.0 million, or 10.4%, from 2018. The increase in revenue is primarily associated with the increase in revenue generated by the SRCC-Medical Oncology joint venture.

Premium revenue associated with a capitated Medicare Advantage contract increased by \$7.0 million, or 20.6%, from 2018 due to an increase in the number of covered lives as well as an increase in the per member payment amount.

Kaweah Delta Health Care District Management's Discussion and Analysis June 30, 2019 and 2018

Other operating revenue consists primarily of PRIME program revenue, cafeteria sales, equity ownership in an ambulatory surgery center, assisted living center, and memory care facility, contributions, and health and fitness center membership sales and dues. Other operating revenue increased by \$1.6 million, or 4.0%. This increase is primarily due to an increase in retail pharmacy revenue.

Salaries and benefits expense increased \$21.7 million, or 6.3%. Salaries and wages increased \$19.7 million, or 7.3%, and employee benefits expense increased \$2.0 million, or 2.8%, from 2018. The increase in salaries and wages was attributable to salaries capitalized in 2018 but not in 2019, for the Cerner implementation project, an increase in hours paid, and wage related adjustments.

Medical and other supplies increased \$5.5 million, or 4.1%, from 2018 due to an increase in pharmaceutical costs associated with SRCC-Medical Oncology volume and the retail pharmacy.

Medical and other fees and services increased \$15.9 million, or 12.2%, due to an increase in physician fees related to growth in contracted areas such as KDMF, the neurosciences center and the cardiology clinic, an increase in contract labor, and increased health care services costs associated with a Medicare Advantage contract for which the District receives revenue on a capitation basis.

Maintenance, utilities, and rent increased by \$2.4 million, or 6.7%, during 2019 primarily due to increases in maintenance costs related to information systems.

Depreciation and amortization expense increased \$5.2 million, or 20.1%, primarily due to the go-live of the Cerner software in May 2018 as well as the completion of other construction projects.

Other expenses decreased \$2.5 million, or 15.7%, resulting mainly from a decrease in professional liability expense.

Total operating expenses increased by \$48.2 million, or 7.0%.

Nonoperating revenues of \$15.4 million for fiscal year 2019 are comprised of \$4.6 million of tax revenue received from the County of Tulare and \$10.8 million in investment income on cash and investments. Tax revenue increased by \$125,000, or 2.8%, in 2019. Investment income represents interest income and realized and unrealized gains and losses on District and Foundation investments. District investments by law may only be invested in high-grade, governmental and commercial fixed income securities and money market funds. Investment income for 2019 increased 8.5 million from 2018 due to unrealized gains on the District's investments.

Nonoperating expenses represent interest on the District's short-term and long-term debt consisting of revenue and general obligation bonds and capital leases, loss on disposal of capital assets, and bond issuance expense. Total interest expense of \$7.2 million increased by \$833,000, or 13.1%, from 2018 due to the completion of projects for which interest was capitalized in 2018. Bond issuance expense decreased by \$298,000 in 2019.

For fiscal year 2019, capital contributions of \$861,000 represent amounts received from Foundation donors to support specific capital purposes. The Foundation exists to support the needs of the District and to help build support for the District and our community.

Kaweah Delta Health Care District Management's Discussion and Analysis June 30, 2019 and 2018

The following summarizes the District's consolidated statements of revenues, expenses, and changes in net position between 2018 and 2017:

Acute admissions increased by 1,097, or 4.2%, to 27,016 and acute patient days increased by 7,241, or 5.8%, to 132,384. Skilled nursing and long-term subacute patient days increased to 21,537 in 2018 from 21,196 in 2017. Outpatient equivalent patient days, a measure of overall outpatient activity, were 2,764, or 1.9%, above 2017 levels. Significant increases in laboratory, diagnostic radiology, ultrasound and CAT procedures, as well as rural health clinic visits contributed to the overall increase in outpatient activity for 2018

Net patient services revenue increased \$51.4 million, or 9.2%, in 2018. The increase in net patient services revenue can mainly be attributed to the overall increase in inpatient and outpatient volumes, an increase in Medi-Cal disproportionate share funding, as well as the District's continuous efforts to improve clinical documentation, the result of which better reflects the acuity of patients and appropriately-higher reimbursement rates.

The District participates in various supplemental payment programs administered by the State of California as discussed in detail in the notes to the consolidated financial statements. In fiscal years 2018 and 2017, the District recognized net patient services revenue of \$12.3 million and \$14.8 million related to the QAF Managed Care Medi-Cal program; \$10.1 million and \$7.6 million related to the AB113 IGT FFS Medi-Cal Inpatient program; and \$4.6 million and \$4.3 million related to the Rate Range IGT Managed Medi-Cal program, respectively.

Management services revenue increased \$1.6 million, or 6.0%, from 2017. The increase in revenue is primarily associated with the increase in revenue generated by the SRCC-Medical Oncology joint venture.

Premium revenue associated with a capitated Medicare Advantage contract increased by \$6.0 million, or 21.4%, from 2017 due to an increase in the number of covered lives as well as an increase in the per member payment amount.

Other operating revenue increased by \$8.1 million, or 26.3%. This increase is primarily due the \$20.4 million of PRIME program revenue recognized in fiscal year 2018 as compared to the \$15.6 million recognized in the prior year, the first year of the District's participation in the program.

Salaries and benefits expense increased \$22.3 million, or 7.0%. Salaries and wages increased \$21.8 million, or 8.8%, and employee benefits expense increased \$509,000, or 0.7%, from 2017. The increase in salaries and wages was mainly attributable to an increase in patient volumes, as discussed above, and wage related adjustments.

Medical and other supplies increased \$12.5 million, or 10.2%, from 2017 due to an increase in the cost of general medical supplies associated with the increase in patient volumes, as well as an increase in pharmaceutical costs associated with SRCC-Medical Oncology volume and a new retail pharmacy.

Medical and other fees and services increased \$17.3 million, or 15.4%, due to an increase in physician fees related to growth in patient volumes as well as the addition of new or expanded service lines such as the neurosciences center and the cardiology clinic, an increase in contract labor, increased collection fees due to the outsource of legacy accounts receivable as a result of the Cerner implementation project, and increased health care services costs associated with a Medicare Advantage contract for which the District receives revenue on a capitation basis.

Maintenance, utilities, and rent increased by \$2.2 million, or 6.7%, during 2018 primarily due to increases in maintenance costs related to information systems..

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

Depreciation and amortization expense increased \$2.2 million, or 9.2%, primarily due to the go-live of the Cerner software in May 2018 as well as the completion of other construction projects.

Other expenses increased \$2.9 million, or 22.2%, resulting mainly from an increase in professional liability expense.

Total operating expenses increased by \$59.4 million, or 9.5%.

Nonoperating revenues of \$6.8 million for fiscal year 2018 are comprised of \$4.5 million of tax revenue received from the County of Tulare and \$2.3 million in investment income on cash and investments. Tax revenue increased by \$241,000, or 5.7%, in 2018. Investment income represents interest income and realized and unrealized gains and losses on District and Foundation investments. District investments by law may only be invested in high-grade, governmental and commercial fixed income securities and money market funds. Investment income for 2018 increased \$40,000, or 1.7%, from 2017.

Nonoperating expenses represent interest on the District's short-term and long-term debt consisting of revenue and general obligation bonds and capital leases, loss on disposal of capital assets, and bond issuance expense. Total interest expense of \$6.4 million decreased by \$631,000, or 9.0%, from 2017. Bond issuance expense increased by \$90,000 in 2018.

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**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

Budget Results

The Board of Directors approves the annual operating budget of the District. The budget remains in effect the entire year, but is updated as needed for internal management use to reflect changes in activity and approved variances. A fiscal year 2019 budget comparison and analysis is presented below.

TABLE 5

Actual vs. Budget

(in thousands)

	Years Ended June 30,		Dollar Variance	Total % Variance
	2019 Actual	2019 Budget		
Net patient services revenue	\$ 638,382	\$ 648,144	\$ (9,762)	-1.5%
Management services revenue	31,751	29,268	2,483	8.5%
Premium revenue	40,871	35,931	4,940	13.7%
Other operating revenue	40,569	29,072	11,497	39.5%
Total operating revenues	751,573	742,415	9,158	1.2%
Salaries and benefits	363,289	361,811	1,478	0.4%
Medical and other supplies	141,150	138,718	2,432	1.8%
Medical and other fees and services	145,592	126,101	19,491	15.5%
Maintenance, utilities, and rent	37,743	38,051	(308)	-0.8%
Depreciation and amortization	30,851	33,808	(2,957)	-8.7%
Other	13,285	17,528	(4,243)	-24.2%
Total operating expenses	731,910	716,017	15,893	2.2%
Operating income	19,663	26,398	(6,735)	-25.5%
Nonoperating revenues – net of nonoperating expenses	8,245	1,597	6,648	416.3%
Income before contributions	\$ 27,908	\$ 27,995	\$ (87)	-0.3%

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

In comparing actual versus budgeted 2019 results, the following is noted:

The District completed its fiscal year 2019 \$87,000, or 0.3%, below the budgeted income before contributions of \$28.0 million. Operating income fell short of budget expectations but nonoperating income exceeded budget by \$6.6 million due to unrealized gains on the District's investment portfolio.

The District's operating income fell short of budget expectations by \$6.7 million, or 25.5%. Net patient services revenue fell short of budget by \$9.8 million, or 1.5%, mainly due to lower-than-expected patient volumes. Management services revenue, premium revenue, and other operating revenue exceeded budget expectations by \$2.5 million, or 8.5%, 4.9 million, or 13.8%, and \$11.5 million, or 39.5%, respectively. The District realized an unfavorable variance in total operating expenses of \$15.9 million, or 2.2%, in fiscal year 2019. This unfavorable expense variance was mainly due to medical and other fees and services, which were \$19.5 million, or 15.5%, higher than expected. The unfavorable variance in this area related to contract labor, purchased services for information services and health information management, and physician fees.

Capital Assets

At June 30, 2019, the District had \$336.4 million invested in a variety of capital assets, as reflected in the following schedule (in thousands), which represents a net increase (additions less retirements and depreciation) of \$10.2 million from the end of the prior year.

	June 30, 2019	June 30, 2018	Dollar Change	Total % Change
Land	\$ 16,137	\$ 15,869	\$ 268	1.7%
Buildings and improvements	356,887	343,422	13,465	3.9%
Equipment	275,513	265,819	9,694	3.6%
Construction in progress	42,299	25,196	17,103	67.9%
	690,836	650,306	40,530	6.2%
Less accumulated depreciation	357,681	328,323	29,358	8.9%
	333,155	321,983	11,172	3.5%
Property under capital leases – less accumulated amortization	3,204	4,123	(919)	-22.3%
Capital assets, net	<u>\$ 336,359</u>	<u>\$ 326,106</u>	<u>\$ 10,253</u>	3.1%

**Kaweah Delta Health Care District
Management's Discussion and Analysis
June 30, 2019 and 2018**

Material additions during fiscal year 2019 included (in thousands):

Construction and equipment costs related to:	
Infill of Acequia Wing fifth and sixth floors	\$ 10,168
Emergency department expansion	\$ 7,016
Purchase of medical buildings	\$ 4,307
Implementation of a new IT platform (Cerner)	\$ 2,167
Patient monitoring system	\$ 1,440
Cogen rebuild and chillders	\$ 1,194
Network equipment, wiring and storage	\$ 1,119
Acequia Wing second floor OB surgery suites	\$ 1,032

Long-Term Debt

At June 30, 2019, the District had approximately \$268.1 million in capital lease obligations and revenue and general obligation bonds outstanding as described in Notes 8 and 9 to the consolidated financial statements. The general obligation bonds represent the general obligation of the District. The District has the power and is obligated to cause annual ad valorem taxes to be levied upon all property within the District, subject to taxation by the District, and collected by the County of Tulare for payment, when due, of the principal and interest on the bonds. The bond indenture agreements contain various restrictive covenants that include, among other things, minimum debt service coverage, maintenance of minimum liquidity, restrictions on certain additional indebtedness, and requirements to maintain certain financial ratios.

2017A and 2017B Bonds – During April 2017, the District issued \$13.7 million Series 2017A and \$20.0 million Series 2017B of Kaweah Delta Health Care District Revenue Bonds. Both the 2017A and the 2017B revenue bonds bear interest at a rate of 3.24%. The net proceeds were used to prepay existing debt, including the remaining outstanding amounts of the 2006 and 2011B revenue bonds. The 2017A and 2017B revenue bonds maturing on or after June 1, 2029, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium. The current refunding of the 2006 and 2011B bonds resulted in decreased debt service payments of approximately \$8.0 million over the next 17 years and an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$4.3 million.

2017C Bonds – During December 2017, the District issued \$59.5 million Series 2017C of Kaweah Delta Health Care District Revenue Bonds. The 2017C revenue bonds bear interest at a rate of 2.71%. The net proceeds were used to refund \$46.0 million of the 2012 revenue bonds and to prepay the remaining 2011 Siemens lease obligation. The 2017C revenue bonds maturing on or after June 1, 2028, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium. The advance refunding of the 2012 revenue bonds and lease obligations resulted in decreased debt service payments of approximately \$8.6 million over the next 24 years and an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$5.9 million.

Kaweah Delta Health Care District Management's Discussion and Analysis June 30, 2019 and 2018

Economic Outlook

The District's Board of Directors and management considered many factors when setting the fiscal year 2020 budget. Of primary importance in setting the 2020 budget is the status of the California economy, the fiscal policy of the state and federal governments, the availability and affordability of labor, the general rise of health care related costs, and local and regional competition for health care services. Specific factors and assumptions incorporated in the District's fiscal year 2020 budget include:

- Inpatient utilization is projected to increase by 1.8% from 2019 levels reflecting an average daily patient census of 449. Outpatient activity expressed in equivalent inpatient days is projected to increase 5.7% from 2019.
- A 3.7% increase in gross patient services revenue due to increased patient care volume, although no retail price increase was budgeted.
- A Medicare general acute care rate increase of approximately 1.2%, an increase of 1.4% for outpatient services, an increase of 46.2% for skilled nursing, an increase of 2.5% for subacute services, an increase of 2.2% for home health services, an increase of 1.5% for rural health clinic services, an increase of 13.7% for acute rehabilitation, and a 1.7% increase for acute psychiatric services.
- No change in reimbursement anticipated for Medi-Cal fee-for-service acute medical/surgical, rehabilitation services, skilled nursing, subacute, psychiatric, home health, and outpatient fee-for-service reimbursement. Includes \$16.1 million in disproportionate share payments, \$11.0 million in anticipated fee-for-service intergovernmental transfer revenue and \$11.7 million in provider fee intergovernmental transfer and grant revenue.
- Medi-Cal managed care reimbursement rate increases of approximately 1.6% based on scheduled rate increases included in multi-year contracts. Includes \$13.0 million of Medi-Cal managed care rate range program intergovernmental transfer revenue.
- Annual scheduled rate increases for non-government managed care payers for contracts negotiated in prior years as well as expected new negotiated increases with managed care plans averaging 2.9%.
- The successful improvement of seven health care delivery system improvement initiatives under the PRIME program resulting in the recognition of \$10.9 million in related revenue.
- Overall expense per adjusted patient day is projected to decrease by 1.2% from the prior year.

Report of Independent Auditors

Board of Directors
Kaweah Delta Health Care District

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Kaweah Delta Health Care District, which comprise the consolidated statements of net position as of June 30, 2019 and 2018, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kaweah Delta Health Care District as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 14 and the supplemental pension information on pages 50 and 51 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

Stockton, California
 , 2019

FINAL DRAFT

Consolidated Financial Statements

FINAL DRAFT

Kaweah Delta Health Care District
Consolidated Statements of Net Position
Jun 30, 2019 and 2018 (in thousands)

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,220	\$ 5,325
Current portion of Board designated and trustee assets	12,577	12,643
Accounts receivable:		
Net patient accounts	146,605	138,502
Other	13,907	7,863
	<u>160,512</u>	<u>146,365</u>
Inventories	10,479	8,408
Medicare and Medi-Cal settlements	30,759	20,088
Prepaid expenses	11,510	10,967
Total current assets	<u>230,057</u>	<u>203,796</u>
NONCURRENT CASH AND INVESTMENTS –		
less current portion		
Board designated assets	278,883	272,414
Bond assets held in trust	33,569	57,845
Assets in self-insurance trust fund	4,209	4,607
	<u>316,661</u>	<u>334,866</u>
CAPITAL ASSETS		
Land	16,137	15,869
Buildings and improvements	356,887	343,422
Equipment	275,513	265,819
Construction in progress	42,299	25,196
	<u>690,836</u>	<u>650,306</u>
Less accumulated depreciation	<u>357,681</u>	<u>328,323</u>
	333,155	321,983
Property under capital leases – less accumulated amortization	<u>3,204</u>	<u>4,123</u>
	336,359	326,106
OTHER ASSETS		
Property not used in operations	3,724	3,796
Health-related investments	7,537	6,252
Other	9,706	8,337
	<u>20,967</u>	<u>18,385</u>
Total assets	904,044	883,153
DEFERRED OUTFLOWS		
Unamortized loss on defeasance of debt	3,586	3,988
Unamortized goodwill	345	399
Change in assumptions and actuarial losses	1,935	4,501
Total deferred outflows	<u>5,866</u>	<u>8,888</u>
	<u>\$ 909,910</u>	<u>\$ 892,041</u>

Kaweah Delta Health Care District
Consolidated Statements of Net Position
June 30, 2019 and 2018 (in thousands)

	2019	2018
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 35,319	\$ 44,529
Accrued payroll and related liabilities	59,163	46,064
Long-term debt – current portion	9,360	8,976
Total current liabilities	103,842	99,569
LONG-TERM DEBT – less current portion		
Bonds payable	258,553	266,631
Capital leases	174	2,156
	258,727	268,787
NET PENSION LIABILITY	31,249	40,898
OTHER LONG-TERM LIABILITIES	28,647	26,773
Total liabilities	422,465	436,027
DEFERRED INFLOWS		
Change in assumptions and actuarial losses	8,206	5,544
	8,206	5,544
NET POSITION		
Net investments in capital assets	105,427	110,175
Restricted:		
Expendable	18,226	18,887
Nonexpendable – minority interest	2,805	2,311
Nonexpendable – permanent endowments	9,059	8,470
Unrestricted	343,722	310,627
Total net position	479,239	450,470
	\$ 909,910	\$ 892,041

Kaweah Delta Health Care District
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2018 (in thousands)

	2019	2018
OPERATING REVENUES		
Net patient services revenue	\$ 638,382	\$ 609,324
Other revenues		
Management services revenue	31,751	28,767
Premium revenue	40,871	33,880
Other	40,569	39,012
	<u>113,191</u>	<u>101,659</u>
Total other revenues		
Total operating revenues	751,573	710,983
OPERATING EXPENSES		
Salaries and wages	289,671	269,990
Employee benefits	73,618	71,624
	<u>363,289</u>	<u>341,614</u>
Total employment expenses		
Medical and other supplies	141,150	135,619
Medical and other fees	104,811	89,529
Purchased services	40,781	40,186
Repairs and maintenance	25,901	24,023
Utilities	5,723	5,592
Rents and leases	6,119	5,753
Depreciation and amortization	30,851	25,681
Other	13,285	15,762
	<u>731,910</u>	<u>683,759</u>
Total operating expenses		
OPERATING INCOME	19,663	27,224
NONOPERATING (EXPENSES) REVENUES		
Tax revenue	4,605	4,479
Investment income	10,817	2,315
Bond issuance expense	-	(298)
Interest expense	(7,208)	(6,375)
Gain on disposal of capital assets	31	7
	<u>8,245</u>	<u>128</u>
Total nonoperating (expenses) revenues		
INCOME BEFORE CAPITAL CONTRIBUTIONS	27,908	27,352
CAPITAL CONTRIBUTIONS	861	1,563
	<u>28,769</u>	<u>28,915</u>
Change in net position		
NET POSITION – beginning of year	450,470	421,555
NET POSITION – end of year	<u>\$ 479,239</u>	<u>\$ 450,470</u>

Kaweah Delta Health Care District
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018 (in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from net patient services revenue	\$ 618,685	\$ 568,356
Cash received from management services and other operating revenues	104,963	108,731
Cash payments for salaries, wages, and related benefits	(349,987)	(333,784)
Cash payments for other operating expenses	(342,497)	(311,327)
Net cash from operating activities	31,164	31,976
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tax revenue	1,361	1,281
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond issuance costs	-	(298)
Interest payments on bonds payable and capital leases	(9,872)	(10,611)
Principal payments on bonds payable and capital leases	(8,992)	(66,322)
Proceeds from revenue bonds	-	59,511
Contributions received for capital expenditures	861	1,563
Tax revenue related to general obligation bonds	3,244	3,198
Purchase of capital assets	(48,342)	(42,317)
Proceeds from disposal of capital assets	27	1
Net cash used for capital and related financing activities	(63,074)	(55,275)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income on investments	6,560	6,673
Purchase of investments	(98,806)	(93,937)
Net Health-related investment contributions	(772)	(1,536)
Purchase of property not used in operations	1	(423)
Proceeds from sales and maturities of investments	134,216	115,173
Net cash from investing activities	41,199	25,950
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,650	3,932
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	134,319	130,387
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 144,969	\$ 134,319

See accompanying notes.

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Kaweah Delta Health Care District
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018 (in thousands)

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents in current assets	\$ 4,220	\$ 5,325
Cash and cash equivalents in noncurrent cash and investments:		
Board designated cash and investments	102,836	92,583
Bond assets held in trust	37,905	36,336
Assets in self-insurance trust fund	<u>8</u>	<u>75</u>
	<u>\$ 144,969</u>	<u>\$ 134,319</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 19,663	\$ 27,224
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	30,851	25,681
Provision for bad debts	36,725	28,016
Changes in:		
Increase in accounts receivable	(50,872)	(61,345)
Increase in inventories, prepaid expenses, and other assets	(15,254)	(489)
Increase in accounts payable and accrued expenses, accrued payroll and related liabilities, and other long-term liabilities	<u>10,051</u>	<u>12,887</u>
Net cash from operating activities	<u>\$ 31,164</u>	<u>\$ 31,976</u>

Kaweah Delta Health Care District

Notes to Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

Reporting entity – Kaweah Delta Health Care District (the “District”) is a political subdivision of the state of California, organized and existing under the State of California Local Health Care District Law as set forth in the Health and Safety Code of the state of California. The District is governed by a separately-elected Board of Directors (the “Board”).

The accounting policies of the District conform to those recommended by the Health Care Committee of the American Institute of Certified Public Accountants. The District’s consolidated financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (“GASB”), and the Financial Accounting Standards Board (“FASB”), when applicable. The District is not generally subject to state and federal income taxes. The District provides health care services to individuals who reside primarily in the local geographic area.

Principles of consolidation – The consolidated financial statements of the District include the accounts of the District, Kaweah Delta Hospital Foundation (the “Foundation”), Kaweah Delta Medical Foundation (“KDMF”), Sequoia Regional Cancer Center, LLC (“SRCC”), Sequoia Regional Cancer Center – Medical Oncology, LLC (“SRCC-MO”), and TKC Development, LLC (“TKC”). KDMF, SRCC, SRCC-MO, TKC, and the Foundation are component units that have been blended for presentation purposes. The District has a 75% interest in TKC, which leases real estate and equipment from the District and then subleases the real estate and equipment to SRCC and SRCC-MO. The District has a 75% interest in SRCC and a 45% interest in SRCC-MO, management services organizations providing staff, facilities, and administration services to the radiation oncology department of the District and a medical oncology physician group, respectively. The District provides key management, administrative, and support services to SRCC and SRCC-MO, including all of their employees, leased buildings and equipment, accounting, human resources, information technology, housekeeping, risk management, and maintenance services.

The Foundation was established in March 1980 as an exempt organization under Internal Revenue Code Section 501(c)(3) to raise funds to support the operation of the District. The Foundation’s bylaws provide that all funds raised be distributed to or be held for the benefit of the District. The Foundation’s general funds, which represent the Foundation’s unrestricted resources, will be distributed to the District in amounts and in periods determined by the Foundation’s Board of Trustees.

Effective November 1, 2015, the District and its subsidiary, Kaweah Delta Health Care, Inc., a California nonprofit 501(c)(3) public benefit corporation, doing business as KDMF, entered into an affiliation with Visalia Medical Clinic (“VMC”), a California professional medical corporation. VMC is the largest multi-specialty medical group in Visalia and has been in existence for over 75 years. KDMF provides primary and specialty care health services to patients. The District is the sole corporate member of KDMF, with the nonprofit entity operating as a California medical foundation pursuant to Section 1206(l) of the California Health and Safety Code. VMC transferred its personal property, payor agreements, and nonphysician staff, among other assets, to KDMF. All physicians and mid-level providers will continue to be employed by VMC. VMC has entered into a professional services agreement with KDMF and provides medical services to patients of KDMF.

All intercompany transactions have been eliminated in the District’s consolidated financial statements.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

Use of estimates – The preparation of consolidated 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 disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting standards – Pursuant to Government Accounting Standard Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) Pronouncements*, the District’s proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

Net patient services revenue and patient accounts receivable – Net patient services revenue is reported at the estimated net realizable amount from patients, governmental programs, health maintenance and preferred provider organizations, and insurance contracts under applicable laws, regulations, and program instructions. Net realizable amounts are generally less than the District’s established rates. Final determination of certain amounts payable is subject to review by appropriate third-party representatives. Subsequent adjustments, if any, arising from such reviews are recorded in the year final settlement becomes known. Significant concentrations of net patient accounts receivable at June 30, 2019 and 2018, include Medicare, 29.86% and 30.42%, respectively, and Medi-Cal, 33.75% and 26.44%, respectively. The District provides for estimated losses on amounts receivable directly from patients based on historical bad debt experience. Past due status is based on the date the account is determined to be payable directly from the patient. When the account is deemed uncollectible in accordance with District policy, it is written off to bad debt expense. Recoveries from previously written-off accounts are recorded when received. At June 30, 2019 and 2018, the District provided allowances for losses on amounts receivable directly from patients totaling \$58.1 million and \$38.3 million, respectively. Amounts written off to bad debt expense included in net patient services revenue totaled approximately \$36.7 million and \$28.0 million for 2019 and 2018, respectively.

The District renders service to patients under contractual arrangements with the Medicare and Medi-Cal programs. Medicare payments are primarily prospective for inpatients while Medicare payments for outpatients are based on a combination of a fee-for-service schedule and prospective reimbursement. Medi-Cal inpatient payments are subject to the state’s prospective payment system. Medi-Cal outpatient services are reimbursed on a fee-for-service schedule. The programs’ administrative procedures preclude final determination of amounts due for services to program patients until after the cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. Medicare and Medi-Cal cost reports for 2018 and 2019 are subject to audit and possible adjustment. Net Medicare and Medi-Cal program patient services revenue amounted to approximately \$382.2 million and \$400.5 million in 2019 and 2018, respectively. The District recognized in the consolidated statements of revenues, expenses, and changes in net position increases of approximately \$729,000 and \$2.0 million in 2019 and 2018, respectively, in net patient services revenue pertaining to the settlement of previous years’ cost reports.

Proprietary fund accounting – The District utilizes the proprietary fund method of accounting whereby all revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual.

Cash and cash equivalents – Cash and cash equivalents include cash in bank checking, savings, and time deposit accounts, money market funds, and investments in highly liquid debt instruments with a maturity of three months or less when purchased.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

Charity care – The District provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. The District accepts all patients regardless of their ability to pay. Partial payments to which the District is entitled from public assistance programs on behalf of patients that meet the District's charity care criteria are reported as net patient services revenue. Charity care, which is excluded from recognition as receivables or revenue in the consolidated financial statements, provided in 2019 and 2018, measured on the basis of uncompensated cost, was \$4.2 million and \$3.6 million, respectively.

Inventories – Inventories are reported at cost (determined by the first-in, first-out method), which is not in excess of market value.

Prepaid expenses – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Investments – Investments are reported at fair value, based on quoted market prices when applicable and realized and unrealized gains and losses are included in nonoperating revenues as investment income. The fair market value of money market funds, guaranteed investment contracts, and investments in the Local Agency Investment Funds ("LAIF"), an external investment pool for government agencies administered by the state of California, approximates cost due to the liquid nature of these investments.

Noncurrent cash and investments – Noncurrent cash and investments include unrestricted cash and investments designated by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, cash and investments held by trustees under bond indentures, and cash and investments held in the District's self-insurance trust fund.

Intangible asset – The District has contributed \$2.0 million of the 2004 general obligation bond proceeds to the city of Visalia (the "City") for the construction of a parking garage in exchange for 84 parking spaces for District use (see Note 9). The District's use of the parking spaces is indefinite and the District is amortizing the asset over the estimated 25-year useful life of the parking garage. Amortization began in 2007 when the parking garage was completed and placed into service by the City.

Capital assets – Property, plant, and equipment 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 that increase values, change capacities, or extend useful lives are capitalized. The District capitalizes interest cost net of any interest earned on temporary investments of the proceeds for construction projects funded by tax-exempt borrowings. Interest expense is also capitalized for projects financed with operating funds.

Depreciation expense and amortization of property under capital leases are combined in the consolidated statements of revenues, expenses, and changes in net position and are computed by the straight-line method for financial reporting purposes over the estimated useful lives of the assets or the life of the lease, whichever is less, which range from 5 to 40 years for buildings and improvements and 3 to 25 years for equipment and leasehold improvements.

At times the District may dispose of capital assets prior to the end of the assets' projected useful life. In cases when an associated gain or loss is recognized due to the disposal, the related gain or loss is shown as a nonoperating revenue or expenditure in the consolidated statement of revenue, expenses, and changes in net position.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

Consolidated statements of revenues, expenses, and changes in net position – All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the consolidated statements of revenues, expenses, and changes in net position. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or investment income.

Medical malpractice and general liability self-insurance – The District maintains a self-insurance policy against malpractice and comprehensive general liability loss with supplemental coverage for losses in excess of \$4.0 million per incident and \$6.0 million in aggregate with a coverage limit of \$20.0 million per incident and in aggregate. The current portion of the related liability is reported in accounts payable and accrued expenses on the consolidated balance sheet, while the long-term portion is included in other long-term liabilities. The District has established an irrevocable trust for the purpose of appropriating assets to cover such losses. Under the trust agreement, the trust assets can only be used for payment of malpractice losses, general liability losses, related expenses, and the cost of administering the trust. The assets of the trust and related liabilities are reported on the consolidated balance sheet. Income from the trust assets, estimated losses from claims, and administrative costs are reported in the consolidated statements of revenues, expenses, and changes in net position.

Losses from asserted and unasserted claims identified under the District's incident reporting system are accrued based on estimates that incorporate the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. The District's accrued malpractice losses also include an estimate of possible losses attributable to incidents that may have occurred, but have not been identified under the incident reporting system. The District has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Estimated future payments relating to malpractice losses have been discounted at a 3.0% rate.

Workers' compensation self-insurance – The District maintains a self-insurance policy against workers' compensation losses with supplemental coverage for losses in excess of \$1.5 million. The Board has designated funds for the payment of workers' compensation claims. The current portion of the related liability is reported in accrued payroll and related liabilities on the consolidated balance sheet, while the long-term portion is included in other long-term liabilities. Losses from asserted and unasserted claims identified under the District's incident reporting system are accrued based on estimates that incorporate the District's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The District's accrued workers' compensation losses also include an estimate of possible losses attributable to incidents that may have occurred, but have not been identified under the incident reporting system. The District has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Estimated future payments relating to workers' compensation losses have been discounted at a 2.6% rate.

Medical benefits self-insurance – The District maintains a policy of self-insuring medical costs up to \$1 million per employee. The related liability is reported in accrued payroll and related liabilities on the consolidated balance sheet. Losses from asserted and unasserted claims identified under the District's reporting system are accrued based on estimates that incorporate the District's past experience and relevant trend factors. The District's accrued medical insurance liability also includes an estimate of possible losses attributable to incidents that may have occurred, but have not been reported.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

Compensated absences – The District’s benefits-eligible employees earn vacation, short-term illness, and holiday leave, referred to as Paid Time Off (“PTO”), at varying rates based upon qualifying service hours. Employees may accumulate PTO up to a specified maximum. Accrued PTO is paid to the employee upon termination of employment or upon conversion to nonbenefits-eligible status. The estimated amount of PTO payable to employees is reported as a current liability in both 2019 and 2018. Extended Illness Bank (“EIB”) time is also earned at a specific rate per qualified service hour. Employees who were vested in the District’s defined benefit retirement plan as of June 30, 2011 (the effective date it was “frozen”) were offered a one-time opportunity to have their accrued EIB time applied to length of service up to a maximum of one-year service credit. However, no payment is made for accrued EIB time when employment is terminated.

Premium revenue and health care services cost recognition – The District contracts with a Medicare Advantage company (Humana) to provide health care services for certain members for which it receives revenue on a capitated basis. Under this agreement, the District receives monthly capitation payments based upon the number of participants covered under the agreements, regardless of services actually performed by the District or others under the agreements. Revenue is recognized during the period in which the District is obligated to provide services to the participants. The agreement for which the District is compensated on a capitated basis requires that the District provide or arrange for certain covered health care services to all members covered under the contract, which results in the District compensating other providers on a fee-for-services basis for the services. The cost of these services is accrued in the period the services are provided to the members based, in part, on estimates by management. The accrual of expense for such services provided includes an estimate of services provided but not reported to the District as of the fiscal year end.

Reclassifications – Certain reclassifications have been made to prior year balances to conform to the current year presentation.

Net position – Net position is divided into three components: net investment in capital assets, restricted, and unrestricted.

These classifications are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted expendable net position the use of which is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation and includes assets in self-insurance trust funds, revenue bond reserve fund assets, and net position restricted to use by donors. Restricted nonexpendable net position equals the principal portion of permanent endowments as well as minority interest.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

New accounting pronouncements – In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* (“GASB 84”). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The adoption of GASB 84 is effective for the District beginning July 1, 2019. The District is currently assessing the impact of this standard on the District’s consolidated financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* (“GASB 87”), which is effective for financial statements for periods beginning after December 15, 2019. GASB 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The adoption of GASB No. 87 is effective for the District beginning July 1, 2020. The District is currently assessing the impact of this standard on the District’s consolidated financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (“GASB 88”). Among other things, GASB 88 clarifies which liabilities governments should include in their note disclosures related to debt. GASB 88 requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. GASB 88 further defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement further requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The adoption of GASB 88 is effective for the District beginning July 1, 2019. The District is currently assessing the impact of this standard on the District’s consolidated financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (“GASB 89”). GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. The adoption of GASB 89 is effective for the District beginning July 1, 2020. The District is currently assessing the impact of this standard on the District’s consolidated financial statements.

Kaweah Delta Health Care District
Notes to Consolidated Financial Statements

NOTE 2 – NONCURRENT CASH AND INVESTMENTS

Noncurrent cash and investments required for obligations classified as current liabilities are reported as current assets. The composition of noncurrent cash and investments is as follows (in thousands):

	2019	2018
Board designated assets:		
Cash and cash equivalents	\$ 102,836	\$ 92,583
U.S. Treasury obligations	69,924	57,434
Federal agency obligations	12,062	13,938
Municipal obligations	5,653	7,280
Corporate obligations	55,411	61,944
Equity securities	9,294	9,593
Mutual funds	1,441	1,615
Asset and mortgage-backed securities	25,169	20,777
Supranational Agency	2,558	12,484
Alternative investments	900	1,301
Interest receivable	1,160	968
Current portion	(7,525)	(7,503)
	\$ 278,883	\$ 272,414
	2019	2018
Bond assets held in trust:		
Cash and cash equivalents	\$ 37,905	\$ 36,336
Federal agency obligations	-	13,985
Corporate obligations	-	11,701
Interest receivable	121	244
Current portion	(4,457)	(4,421)
	\$ 33,569	\$ 57,845
	2019	2018
Assets in self-insurance trust fund:		
Cash and cash equivalents	\$ 8	\$ 75
U.S. Treasury obligations	2,241	1,311
Federal agency obligations	665	849
Municipal obligations	355	436
Corporate obligations	1,105	1,381
Asset and mortgage-backed securities	402	832
Supranational Agency	-	419
Interest receivable	28	22
Current portion	(595)	(718)
	\$ 4,209	\$ 4,607

Kaweah Delta Health Care District

Notes to Consolidated Financial Statements

NOTE 3 – FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value within the fair value hierarchy are:

- Level 1 –** Quoted prices in active markets for identical assets or liabilities
- Level 2 –** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 –** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of net position reported at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall (in thousands):

June 30, 2019					
Description	Level 1	Level 2	Level 3	Investments held at net asset value	Balance
Cash and cash equivalents	\$ 132,462	\$ -	\$ -	\$ -	\$ 132,462
U.S. Treasury obligations	72,165	-	-	-	72,165
Federal agency obligations	-	12,727	-	-	12,727
Municipal obligations	-	6,008	-	-	6,008
Corporate obligations	-	56,516	-	-	56,516
Asset and mortgage-backed securities	-	25,571	-	-	25,571
Supranational Agency	-	2,558	-	-	2,558
Other Foundation assets	10,735	-	-	900	11,635
	<u>\$ 215,362</u>	<u>\$ 103,380</u>	<u>\$ -</u>	<u>\$ 900</u>	<u>\$ 319,642</u>

**Kaweah Delta Health Care District
Notes to Consolidated Financial Statements**

June 30, 2018

Description	Level 1	Level 2	Level 3	Investments held at net asset value	Balance
Cash and cash equivalents	\$ 101,577	\$ -	\$ -	\$ 20,692	\$ 122,269
U.S. Treasury obligations	58,744	-	-	-	58,744
Federal agency obligations	-	28,773	-	-	28,773
Municipal obligations	-	7,716	-	-	7,716
Corporate obligations	-	75,025	-	-	75,025
Asset and mortgage-backed securities	-	21,608	-	-	21,608
Supranational Agency	-	12,903	-	-	12,903
Other Foundation assets	11,208	-	-	1,301	12,509
	<u>\$ 171,529</u>	<u>\$ 146,025</u>	<u>\$ -</u>	<u>\$ 21,993</u>	<u>\$ 339,547</u>

NOTE 4 – BANK DEPOSITS

At June 30, 2019 and 2018, the District had bank balances totaling \$12.5 million and \$12.0 million, respectively, which approximate book balances. Of these balances, \$6.4 million and \$5.0 million were insured by the Federal Deposit Insurance Corporation at June 30, 2019 and 2018, respectively, and the remainder was collateralized. The California Government Code (the "Code") requires financial institutions to secure the District's deposits, in excess of insured amounts, by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits.

Kaweah Delta Health Care District
Notes to Consolidated Financial Statements

NOTE 5 – INVESTMENTS

GASB Statement No. 40 requires the District to disclose its deposit and investment policies related to investments with credit risk or deposits with custodial credit risk, the credit ratings and maturities of its investments (other than U.S. government obligations or obligations guaranteed by the U.S. government), and additional disclosures related to uninsured deposits. A summary of scheduled maturities by investment type at June 30, 2019, follows (in thousands):

	Fair Value	Investment Maturities (in years)		
		Less than 1	1 - 5	More than 5
U.S. Treasury obligations	\$ 72,165	\$ 25	\$ 71,950	\$ 190
Federal agency obligations	12,727	30	12,632	65
Corporate obligations	56,516	3,011	53,392	113
Municipal obligations	6,008	-	6,008	-
Asset and mortgage-backed securities	25,571	22	25,549	-
Supranational Agency	2,558	-	2,558	-
Local Agency Investment Funds	67,359	67,359	-	-
CalTRUST	62,898	62,898	-	-
CAMP	2,205	2,205	-	-
Money market funds	-	-	-	-
	308,007	\$ 135,550	\$ 172,090	\$ 367
Equity securities	9,294			
Alternative investments	900			
Mutual funds	1,441			
	<u>\$ 319,642</u>			

**Kaweah Delta Health Care District
Notes to Consolidated Financial Statements**

A summary of scheduled maturities by investment type at June 30, 2018, follows (in thousands):

	Investment Maturities (in years)			
	Fair Value	Less than 1	1 - 5	More than 5
U.S. Treasury obligations	\$ 58,744	\$ 17	\$ 58,552	\$ 175
Federal agency obligations	28,772	13,985	\$ 14,718	69
Corporate obligations	75,025	15,618	59,288	119
Municipal obligations	7,716	2,575	5,141	-
Asset and mortgage-backed securities	21,608	105	21,503	-
Supranational Agency	12,903	-	12,903	-
Local Agency Investment Funds	63,970	63,970	-	-
CalTRUST	20,692	20,692	-	-
CAMP	35,970	35,970	-	-
Money market funds	1,638	1,638	-	-
	<u>327,038</u>	<u>\$ 154,570</u>	<u>\$ 172,105</u>	<u>\$ 363</u>
Other Foundation assets				
Equity securities	9,593			
Alternative investments	1,301			
Mutual funds	1,615			
	<u>\$ 339,547</u>			

Investment activities of the District are governed by sections of the Code, which specify the authorized investments that may be made by the District. The District's investment policy (the "Policy") requires that all investing activities of the District comply with the Code and also sets forth certain additional restrictions that exceed those imposed by the Code. The Foundation is governed by the Internal Revenue Code; therefore, its investment activities are not subject to the same requirements as the District.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District's investment policy provides that no investment shall be made in any security having a term remaining to maturity exceeding five years at the time of investment. The Foundation's investment policy allows for longer-term investments.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Policy requires that, to be eligible for investment, corporate notes shall be rated "A," or its equivalent, or better by a nationally-recognized rating service at the time of purchase. The Policy also limits investment in collateralized mortgage obligations to obligations rated "AA," or its equivalent, or better. All of the District's investments in corporate obligations and collateralized mortgage obligations met these requirements as of June 30, 2019. The Policy allows for investments in LAIF up to the maximum amount allowed by the state of California. The investment in LAIF is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty. The state of California Treasurer's office has regulatory oversight of LAIF. The Policy includes no limitations or restrictions related to investments in United States Treasury or federal agency obligations. The Policy also allows for investment in shares of beneficial interest issued by a joint power authority ("JPA") organized pursuant to the Code that invests in the securities and obligations authorized under the Code. The Code requires that the JPA issuing the shares shall have retained an investment adviser with appropriate size and experience as outlined in the Code. The District is a participant in two JPA programs, including the Investment Trust of California, commonly known as CalTRUST, and the California Asset Management Program, commonly known as CAMP, for the purpose of pooling local agency assets for investing. Participation in the JPA programs is open to any public agency in California. Both JPA programs are governed by a Board of Trustees, all of whom are experienced investment officers or employees of the public agency members. The Trustees are responsible for setting the overall policies and procedures for and for overall administration of the JPA. CalTRUST is measured at NAV, which is calculated daily. The CAMP pool is managed to maintain a dollar-weighted portfolio maturity of 60 days or less and seeks to maintain a constant NAV of one dollar per share.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The market value of LAIF investments represented 21.0% and 18.8% of the District's total investment market value at June 30, 2019 and 2018, respectively. The market value of CAMP investments represented 19.6% and 10.6% at June 30, 2019 and 2018, respectively.

NOTE 6 – CAPITAL ASSETS

A summary of changes in capital assets during 2019 is as follows (in thousands):

	Beginning Balance 2018	Additions	Deletions	Transfers	Ending Balance 2019
Land	\$ 15,869	\$ 268	\$ -	\$ -	\$ 16,137
Buildings and improvements	343,422	6,369	-	7,095	356,886
Equipment	265,820	2,158	(399)	7,935	275,514
Construction in progress	25,196	32,133	-	(15,030)	42,299
Property under capital leases	17,699	-	-	-	17,699
	668,006	40,928	(399)	-	708,535
Accumulated depreciation and amortization	341,900	30,638	(362)	-	372,176
	<u>\$ 326,106</u>	<u>\$ 10,290</u>	<u>\$ (37)</u>	<u>\$ -</u>	<u>\$ 336,359</u>

Kaweah Delta Health Care District
Notes to Consolidated Financial Statements

A summary of changes in capital assets during 2018 is as follows (in thousands):

	Beginning Balance 2017	Additions	Deletions	Transfers	Ending Balance 2018
Land	\$ 15,758	\$ 111	\$ -	\$ -	\$ 15,869
Buildings and improvements	322,413	1,306	-	19,703	343,422
Equipment	193,438	12,945	(40)	59,477	265,820
Construction in progress	47,257	37,326	-	(59,387)	25,196
Property under capital leases	37,492	-	-	(19,793)	17,699
	616,358	51,688	(40)	-	668,006
Accumulated depreciation and amortization	316,447	25,493	(40)	-	341,900
	<u>\$ 299,911</u>	<u>\$ 26,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 326,106</u>

NOTE 7 – HEALTH-RELATED INVESTMENTS

The following table summarizes the District’s health-related investments recorded on the equity method at June 30:

	2019	2018
Cypress Company, LLC	\$ 777	\$ 847
Sequoia Surgery Center, LLC	851	946
Northwest Visalia Senior Housing, LLC	3,997	2,500
Sequoia Integrated Health Plan, LLC	1,043	1,124
202 West Willow, LLC	869	836
	<u>\$ 7,537</u>	<u>\$ 6,253</u>

Investment in Cypress Company, LLC (“CyCo”) – In August 2010, Cypress Surgery Center formed CyCo, a real estate holding company organized as a California limited liability company, and transferred all of its real property and associated real estate debt, along with certain other assets and liabilities, to CyCo. The District holds a 40% investment in CyCo.

Investment in Sequoia Surgery Center, LLC (formerly Cypress Surgery Center) – At June 30, 2017, the District held a 31% investment in a free-standing ambulatory surgery center located within the District. In August 2010, Cypress Surgery Center completed a “merger” with the Center for Ambulatory Medicine and Surgery (“CAMS”), a local ambulatory surgery center, and changed its legal name to Sequoia Surgery Center, LLC, as well as its organizational structure from a California limited partnership to a California limited liability company. To effect the merger, Cypress Surgery Center acquired 100% of the assets and outstanding ownership interests of CAMS in exchange for approximately 52% ownership in Cypress Surgery Center (now Sequoia Surgery Center, LLC). As a result of this acquisition, the District’s ownership interest in Sequoia Surgery Center, LLC, was diluted from 64.9% to approximately 31%. Sequoia Surgery Center leases its ambulatory surgery center facility from CyCo.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

Investment in Northwest Visalia Senior Housing, LLC – In January 2017, the District made its initial capital contribution to establish its investment in a joint venture company. Northwest Visalia Senior Housing, LLC, was formed in furtherance of the members' elder care mission and to put into practice innovative approaches to care of the elderly, simultaneously addressing the housing and health care needs of the elderly. This will be accomplished in part by constructing, developing, owning, maintaining, and operating a full service assisted living retirement facility in Visalia, California. Northwest Visalia Senior Housing, LLC, is owned 33.33% by the District, 33.33% by Shannon Senior Care, LLC, 20% by BTV Senior Housing, LLC, and 13.34% by Millennium advisors, Inc. The District has recorded its interest in the joint venture based upon its initial capital contributions.

Investment in Sequoia Integrated Health, LLC – In August 2016, the District made its initial capital contribution to establish its investment in a joint venture company formed in furtherance of the members' common purpose to better serve and coordinate health care services for the communities of Tulare and Kings Counties, and to own and operate an integrated delivery network in California and activities incident thereto. Sequoia Integrated Health, LLC is owned 50% by the District, 25% by Key Medical Group, Inc., and 25% by Foundation for Medical Care of Tulare and Kings Counties, Inc. The District has recorded its interest in the joint venture based upon its initial capital contributions.

Investment in Quail Park Retirement Village, LLC – The District holds an investment in a joint venture company that operates an assisted-living facility in Visalia, California. The joint venture company, Quail Park Retirement Village, LLC, is owned 44% by the District and 56% by Living Care Visalia, LLC, and its affiliated investors. Under the terms of the joint venture agreement, the District has an option to purchase an additional 5% of Living Care Visalia, LLC's equity interest at fair market value determined at the time of sale. Distributions have exceeded initial capital contributions resulting in a deficit equity position for Quail Park Retirement Village, LLC. The District has recorded its interest in the joint venture company at \$0 in accordance with Generally Accepted Accounting Principles as the District is not liable for obligations of the joint venture company.

Investment in Laurel Court at Quail Park, LLC – In June 2011, the District made its initial capital contribution to establish its investment in a joint venture company formed to construct, develop, own, maintain, and operate a full service memory care retirement facility in Visalia, California. The joint venture company, Laurel Court at Quail Park, LLC, is owned 44% by the District and 56% by Living Care Visalia, LLC. Distributions have exceeded initial capital contributions resulting in a deficit equity position for Laurel Court at Quail Park, LLC. The District has recorded its interest in the joint venture company at \$0 in accordance with Generally Accepted Accounting Principles as the District is not liable for obligations of the joint venture company.

Investment in 202 West Willow, LLC – The District received a donation of 3,000 shares in a California limited liability company that owns and rents a 32,293 square foot medical building. The District recorded the investment based upon its allocated capital account balance at the time of the contribution. 202 West Willow, LLC, is owned 30% by the District, 37% by The Malli Family Trust, 15% by Johnson Family Revocable Trust, 10% by Kneeland Family Revocable Trust, 5% by Spade Family Revocable Trust, and 3% by May Family Revocable Trust.

Income or loss from equity method investments is included in other revenues in the corresponding consolidated statement of revenues, expenses, and changes in net position.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

NOTE 8 – CAPITAL LEASES

In April 2011, the District entered into a \$12.3 million tax-exempt master lease agreement for the purpose of refinancing the \$10.3 million principal balance outstanding of an existing tax-exempt lease and to provide for \$2.0 million of additional funds to be deposited into escrow and used to purchase various equipment within a subsequent 24-month period. The lease provided for interest only monthly payments through June 1, 2017, principal and interest payments beginning July 1, 2017, and a final principal payment of \$11.6 million on April 1, 2021. The lease was secured by a security interest in the equipment purchased with the proceeds of the original lease. The refunding of the capital lease resulted in increased debt service payments by approximately \$3.5 million over the next ten years and an economic loss (difference between the present value of the debt service payments on the old and new debt) of approximately \$23,000.

In December 2017, the District used a portion of the proceeds of the 2017C revenue bonds to prepay the remaining lease obligation.

In September 2011, the District entered into an \$18.1 million tax-exempt master lease agreement for the purpose of refunding \$18.0 million of Series 2005 revenue bonds outstanding. The lease provides for equal monthly payments of principal and interest beginning on October 22, 2011, and ending on March 22, 2020. The lease is secured by a security interest in the equipment funded by the 2005 revenue bonds as well as other equipment purchased by the District. The refunding of the Series 2005 bonds resulted in decreased debt service payments of approximately \$2.2 million over the next 8.5 years and an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$1.8 million.

Future minimum payments, by year and in the aggregate, for all capital leases consist of the following at June 30, 2019 (in thousands):

<u>Years ending June 30,</u>		
2020	\$	1,994
2021		131
2022		<u>48</u>
Future minimum lease payments		2,173
Less amount representing interest		<u>32</u>
Present value of minimum lease payments		2,141
Less current portion		<u>1,967</u>
	<u>\$</u>	<u>174</u>

Kaweah Delta Health Care District
Notes to Consolidated Financial Statements

Capital assets include the following amounts that have been initially or are currently capitalized under the leases at June 30 (in thousands):

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 403	\$ 403
Equipment	<u>17,296</u>	<u>17,296</u>
	17,699	17,699
Less accumulated depreciation	<u>14,495</u>	<u>13,576</u>
	<u>\$ 3,204</u>	<u>\$ 4,123</u>

A summary of changes in capital lease obligations during 2019 and 2018 is as follows (in thousands):

	<u>Beginning Balance 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance 2019</u>
Capitalized lease obligations	<u>\$ 4,923</u>	<u>\$ -</u>	<u>\$ 2,782</u>	<u>\$ 2,141</u>

	<u>Beginning Balance 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance 2018</u>
Capitalized lease obligations	<u>\$ 19,782</u>	<u>\$ -</u>	<u>\$ 14,859</u>	<u>\$ 4,923</u>

NOTE 9 – BONDS PAYABLE

During July 2012, the District issued \$75.8 million of Kaweah Delta Health Care District Revenue Bonds, Series 2012. The 2012 revenue bonds bear interest at rates of 2.0% to 5.0%. Approximately \$9.8 million of the net proceeds of the bonds were used by the District to expand its ambulatory surgery services, to complete capital improvements related to the graduate medical education program, and for other infrastructure improvements. Approximately \$68.0 million of the net proceeds was used to prepay existing debt, including the 1999A, 2003B, and 2004 revenue bonds.

The 2012 revenue bonds maturing on or after June 1, 2017, are subject to redemption at the option of the District prior to their respective stated maturities at amounts ranging from 100% to 102% of face value. The 2012 revenue bonds require the District to make minimum sinking fund payments beginning in June 2036. In December 2017, \$46 million of the outstanding 2012 bonds were refunded as discussed below.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

During January 2014, the District issued \$48.9 million of Kaweah Delta Health Care District General Obligation Refunding Bonds, Series 2014, at rates of 3.6% to 4.1%, solely to advance refund \$47.3 million of the outstanding 2004 General Obligation bonds, bearing interest rates of 5.0% to 5.5%. Mandatory sinking fund redemption payments on the bonds began on August 1, 2015. The final maturity of the bonds is August 1, 2034. The advance refunding of the 2004 bonds resulted in decreased debt service payments of approximately \$6.3 million over the next 21 years and an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$4.3 million.

The general obligation bonds represent the general obligation of the District. The District has the power and is obligated to cause annual ad valorem taxes to be levied upon all property within the District, subject to taxation by the District, and collected by the County for payment, when due, of the principal and interest on the bonds.

During October 2015, the District issued \$19.4 million of Kaweah Delta Health Care District Revenue Bonds, Series 2015A. The 2015A revenue bonds bear interest at a rate of 2.975%. The net proceeds were used to prepay existing debt, including a portion of the 2006 and 2011B revenue bonds as well as the outstanding amount of the 2003A and 2011A revenue bonds. The 2015A revenue bonds maturing on or after June 1, 2025, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium. The current refunding of the 2003A and 2006 bonds and the advanced refunding of the 2011A and 2011B bonds resulted in decreased debt service payments of approximately \$3.9 million over the next 18 years and an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$3.0 million.

During December 2015, the District issued \$98.4 million of Kaweah Delta Health Care District Revenue Bonds, Series 2015B. The 2015B revenue bonds bear interest rates of 3.25% to 5.0%. The net proceeds were for the acquisition, construction, installation, and equipping of the second, fifth, and sixth floors of the Kaweah Delta Medical Center's Acequia Wing, expansion and improvement of the emergency department, expansion of outpatient endoscopy services, acquisition and implementation of a new information technology platform (Cerner), acquisition and construction of a new urgent care center, improvements to the Exeter Health Clinic campus, and other projects. The 2015B revenue bonds maturing on or after June 1, 2025, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium.

2017A and 2017B Bonds – During April 2017, the District issued \$13.7 million Series 2017A and \$20 million Series 2017B of Kaweah Delta Health Care District Revenue Bonds. Both the 2017A and the 2017B revenue bonds bear interest at a rate of 3.24%. The net proceeds were used to prepay existing debt, including the remaining outstanding amounts of the 2006 and 2011B revenue bonds. The 2017A and 2017B revenue bonds maturing on or after June 1, 2029, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium. The current refunding of the 2006 and 2011B bonds resulted in decreased debt service payments of approximately \$8.0 million over the next 17 years and an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$4.3 million.

Kaweah Delta Health Care District
Notes to Consolidated Financial Statements

2017C Bonds – During December 2017, the District issued \$59.5 million Series 2017C of Kaweah Delta Health Care District Revenue Bonds. The 2017C revenue bonds bear interest at a rate of 2.71%. The net proceeds were used to refund \$46.0 million of the 2012 revenue bonds and to prepay the remaining 2011 Siemens lease obligation. The 2017C revenue bonds maturing on or after June 1, 2028, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium. The advance refunding of the 2012 revenue bonds and lease obligations resulted in decreased debt service payments of approximately \$8.6 million over the next 24 years and an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$5.9 million

Principal and interest payments due on the revenue and general obligation bonds over the next five years, and in five-year increments thereafter, calculated at the interest rate in effect at June 30, 2019, are as follows (in thousands):

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 7,393	\$ 9,523
2021	9,638	9,220
2022	10,162	8,844
2023	10,664	8,454
2024	11,047	8,139
2025 – 2029	61,675	35,449
2030 – 2034	51,365	25,130
2035 – 2039	40,539	17,564
2040 – 2044	47,960	8,488
2045 – 2046	11,655	466
	<u>262,098</u>	<u>\$ 131,277</u>
Unamortized premium	3,848	
	265,946	
Less current portion	<u>7,393</u>	
	<u>\$ 258,553</u>	

The bond indenture agreements contain various restrictive covenants that include, among other things, minimum debt service coverage, maintenance of minimum liquidity, restrictions on certain additional indebtedness, and requirements to maintain certain financial ratios.

The District paid approximately \$9.9 million and \$10.6 million in interest in 2019 and 2018, respectively, on all debt, including revenue and general obligation bonds, capital leases, and notes payable. The District capitalized interest expense of approximately \$2.3 million and \$4.1 million in 2019 and 2018, respectively.

Kaweah Delta Health Care District
Notes to Consolidated Financial Statements

A summary of changes in bonds payable for the years ended June 30 is as follows (in thousands):

	Beginning Balance	Additions	Payments	Ending Balance
2019	\$ 268,307	\$ -	\$ 6,209	\$ 262,098
2018	\$ 260,260	\$ 59,511	\$ 51,464	\$ 268,307

NOTE 10 – SELF-INSURED CLAIMS

As discussed in Note 1, the District is self-insured for medical malpractice and general comprehensive liability, medical benefits, and workers' compensation, and discounts the medical malpractice and general comprehensive and workers' compensation liabilities using a 2.6% and 3.0% discount rate, respectively. The following is a summary of the changes in the self-insured plan liabilities for the years ended June 30 (in thousands):

	Beginning Balance	Additions	Payments	Ending Balance
2019	\$ 29,528	\$ 33,465	\$ 31,590	\$ 31,403
2018	\$ 29,289	\$ 32,395	\$ 32,156	\$ 29,528

NOTE 11 – EMPLOYEES' RETIREMENT PLANS

The Kaweah Delta Health Care District's Employees' Retirement Plan (the "Retirement Plan") is a single-employer defined benefit pension plan established to provide retirement benefits for District employees based on length of service and the average of the highest consecutive three years of earnings. The Retirement Plan is administered by a retirement plan committee appointed by the Board of the District. The Retirement Plan issues a separate financial report that includes financial statements and required supplemental information.

Employees were eligible to participate on the first day of a pay period following six months of service if hired prior to January 1, 2003, and elected not to participate in the salary deferral plan's matching contribution component. Employees hired on or after January 1, 2003, were not eligible to participate in the Retirement Plan. Employees' retirement benefits vested 100% after five years of completed service.

Effective June 30, 2011, the Retirement Plan was amended to suspend all accruals and otherwise freeze benefits under the plan.

The Retirement Plan complies with the Internal Revenue Code and ERISA as they apply to governmental plans. As a government plan, the Retirement Plan is exempt from the annual minimum funding requirements of ERISA. The Retirement Plan's funding policy is to contribute an annual amount necessary to amortize any unfunded net pension liability over a 15-year period. The District contributed \$11.4 million to the plan in both 2019 and 2018.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

The District uses a measurement date of June 30 for each year presented. The actuarial valuation for fiscal years 2019 and 2018 is based on participant data as of June 30, 2018 and June 30, 2017, respectively. Update procedures were used to roll forward the total pension liability to the measurement date, including the mortality assumption change described below.

Components of pension cost and deferred outflows and deferred inflows of resources under the requirements of GASB No. 68 are as follows for the years ended June 30 (in thousands):

	<u>2019</u>	<u>2018</u>
Pension cost		
Service cost	\$ -	\$ -
Administrative expense	225	193
Interest	20,386	19,997
Expected return on assets, net of investment expenses	(17,659)	(16,217)
Recognition of deferred outflows	3,704	5,876
Recognition of deferred inflows	319	787
Total pension cost	<u>\$ 6,975</u>	<u>\$ 10,636</u>
Deferred outflows of resources		
Established July 1		
Difference between expected and actual experience	\$ 4,299	\$ 4,366
Change in assumptions	<u>1,340</u>	<u>6,011</u>
Deferred outflows of resources at the beginning of the year	<u>5,639</u>	<u>10,377</u>
Amount recognized in current year pension cost		
Established July 1		
Difference between expected and actual experience	2,887	2,371
Change in assumptions	<u>817</u>	<u>3,505</u>
Amount recognized in current year	<u>3,704</u>	<u>5,876</u>
Contributions between the measurement date and fiscal year end recognized as deferred outflow of resources	<u>-</u>	<u>-</u>
Deferred outflows of resources at end of the year	<u>\$ 1,935</u>	<u>\$ 4,501</u>

Kaweah Delta Health Care District
Notes to Consolidated Financial Statements

	2019	2018
Deferred inflows of resources		
Established July 1		
Net difference in expected and actual earnings	\$ (7,887)	\$ (4,757)
Deferred outflows of resources at the beginning of the year	(7,887)	(4,757)
Amount recognized in current year pension cost		
Established July 1		
Net difference in expected and actual earnings	(319)	(787)
Amount recognized in current year	(319)	(787)
Deferred inflows of resources at end of the year	\$ (8,206)	\$ (5,544)

Amounts reported as deferred outflows (inflows) of resources to be recognized in pension cost for future years (in thousands):

2020		\$ 823
2021		(4,215)
2022		(2,410)
2023		(468)
		\$ (6,270)

Participant data for the plan is as follows for June 30:

	2019	2018
Active employees	747	784
Terminated vested	1,001	1,009
Retirees receiving benefits	763	730
Total participants	2,511	2,523

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

The following table summarizes changes in net pension liability for the years ended June 30 (in thousands):

	2019	2018
Total pension liability		
Service cost	\$ -	\$ -
Interest	20,386	19,997
Differences between expected and actual experience	2,304	842
Changes in assumptions	(1,163)	5,446
Benefit payments	(13,275)	(12,707)
Net change in total pension liability	8,252	13,578
Total pension liability, beginning of the year	270,819	257,241
Total pension liability, end of the year	279,071	270,819
Plan fiduciary net position		
Employer contributions	11,400	11,400
Net investment income	20,001	25,925
Benefit payments	(13,275)	(12,707)
Administrative expenses	(225)	(189)
Net change in plan fiduciary net position	17,901	24,429
Plan fiduciary net position, beginning of the year	229,921	205,492
Plan fiduciary net position, end of the year	247,822	229,921
Net pension liability, end of the year	\$ 31,249	\$ 40,898
Plan fiduciary net position as percentage of total pension liability	88.80%	84.90%
Covered employee payroll	N/A	N/A
Net pension liability as percent of covered payroll	N/A	N/A

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2019:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Asset valuation method	Fair Value
Actuarial assumptions (including 2% inflation)	
Discount Rate	7.75%
Mortality	RP-2014 table, projected using MP-2018
Projected Salary Increases	N/A

The mortality assumption was updated in 2018 from the most recent tables published by the Society of Actuaries.

Sensitivity of Net Pension Liability at June 30, 2018 to changes in the Discount Rate (in thousands)	
1% Decrease (6.75%)	\$63,109
Current Discount Rate (7.75%)	\$31,245
1% Increase (8.75%)	\$4,621

The District also administers a salary deferral plan (the "Salary Plan") available to substantially all full-time employees meeting certain service requirements. The Salary Plan qualifies under the Internal Revenue Code Section 401(k) and was established to provide supplemental retirement income for employees of the District. Under the Salary Plan, the District makes matching contributions to participants in accordance with an established schedule based upon each participant's years of service with the District. The District made no matching contributions in 2019 and approximately \$7.1 million matching contributions to participants in 2018. The District recognized pension expense of \$9.1 million and \$8.4 million related to the Salary Plan in 2019 and 2018, respectively. The liability related to the Salary Plan was \$13.9 million and \$4.8 million at June 30, 2019 and 2018, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become vested in the District contributions and earnings on District contributions after completion of five years of service. Nonvested contributions are forfeited upon termination of employment and such forfeitures are used to offset future District contributions. For the years ended June 30, 2019 and 2018, forfeitures reduced the District's pension expense by \$113,000 and \$203,000, respectively.

The District offers its employees a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code Section 457. The 457 Plan, available to all District employees with at least one year of service, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or certain emergency situations.

Kaweah Delta Health Care District

Notes to Consolidated Financial Statements

NOTE 12 – COMMITMENTS

At June 30, 2019, the District has projects in progress to construct, improve, and equip various routine, ancillary, and support services. Major projects in progress include an expansion of the emergency department and the improvement of the fifth and sixth floors of the Acequia Wing. Total costs expended as of June 30, 2019, related to these projects and others are approximately \$42.1 million. The total estimated cost of these projects at completion is approximately \$87.1 million, of which approximately \$51.7 million has been expended or contractually obligated. The estimated final date of completion for the projects is July 2020. Funding for the projects is expected to include a combination of revenue bond funds, operating cash flows, community donations, and funded reserves.

The District has entered into various physician income guarantees whereby, pursuant to the terms in the agreement, the District has extended income guarantees to certain doctors in exchange for the doctors maintaining a medical practice in the District's service area. Payments under the guarantees are expected to be forgiven over a two- to three-year period, should the physician remain in practice in the community. If a doctor terminates his medical practice in the community prior to the completion of the term, the remaining balance under the guarantee is immediately due and payable. The District records expenses under these guarantees as payments are made to physicians. Accounts receivable are recorded when defaults under the agreements occur and are evaluated for collectability.

NOTE 13 – CONTINGENCIES

Malpractice, workers' compensation, and comprehensive general liability claims have been asserted against the District by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2019, that may result in the assertion of additional claims. District management has accrued their best estimate of these contingent losses.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Over the last several years, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenue for patient services. Management believes that the District is in substantial compliance with current laws and regulations and that any potential liability arising from compliance issues have been properly reflected in the District's consolidated financial statements or are not considered to be material to the District's financial position and results of operations as of and for the year ended June 30, 2019.

As disclosed in Note 1, the Medicare and Medi-Cal government reimbursement programs account for a substantial amount of the District's net patient services revenue. Expenditure reduction efforts and budget concerns within the United States and California legislature continue to create uncertainty over the volume of future health care funding. It is at least reasonably possible that future reimbursements for patient services under these programs could be negatively impacted.

NOTE 14 – INTERGOVERNMENTAL AND DIRECT GRANT SUPPLEMENTAL PAYMENT PROGRAMS

The District participates in various supplemental payment programs administered by the State of California including intergovernmental transfer and direct grant funding mechanisms. A summary of these programs is as follows.

The District receives payments under the Quality Assurance Fee (“QAF”) Managed Care Medi-Cal payment program. The California Hospital Fee Program (the “Program”) was signed into law by the Governor of California and became effective on April 1, 2009. The Program is ongoing but requires an extension or revision of the methodology approved by CMS periodically. The Program required a “hospital fee” or “QAF” to be paid by certain hospitals to a state fund established to accumulate the assessed QAF and receive matching federal funds. QAF and corresponding matching federal funds are then paid to participating hospitals in two supplemental payment methodologies: a fee-for-service methodology and a managed care plan methodology.

In the 2009-10 Program, the District, as a nondesignated public hospital (“NDPH”) in California, was not subject to the QA Fee assessment according to the legislation, but rather received net supplemental payments. The Program evolved in 2010 through 2014 with District hospitals participating in a variety of ways. Legislation for the Program that ran from January 1, 2014, through December 31, 2016 (SB239), allowed for direct grant funding for rural District hospitals and additional funding available in the form of Intergovernmental Transfer (“IGT”) payments offered for a match of funding. Passage of Proposition 52 in November 2016 made SB239 permanent and allowed for the creation of the HQAF V program that provides for direct grants for District hospitals as well as IGT-generated funding. The HQAF V program runs from January 1, 2017, through June 30, 2019. In fiscal years 2019 and 2018, the District recognized QAF program related net patient services revenue of \$12.0 million and \$12.3 million, respectively.

The District also receives AB113 IGT FFS Medi-Cal Inpatient payments. Legislation in March 2011 (“SB 90”) extended the QAF Program for the period from January 1, 2011, through June 30, 2011; however, the extension under SB 90 included only private hospitals and thus excluded the District related to the FFS portion of the QAF Program. As an alternative, the NDPH IGT Program was established under AB 113 in 2011 to allow NDPH facilities to access additional federal funds. Under this legislation, the District recognized net patient services revenue of \$9.7 million and \$10.1 million related to this program for the years ended June 30, 2019 and 2018, respectively.

Additionally, the District receives “Rate Range” IGT managed Medi-Cal payments. Federal rules allow that NDPH facilities may access managed care rate range room as determined by negotiations with Medi-Cal managed care plans. As defined by law, rate range room is the difference between the amount that the State pays the managed care plans, referred to as a “lower bound” rate, and the maximum allowed, or the “upper bound” rate. This difference, or rate range, is then available through supplemental IGT payments to public entities that participate in the program in each county. The District recognized net patient services revenue of \$22.7 million and \$4.6 million related to this program in fiscal years 2019 and 2018, respectively.

Kaweah Delta Health Care District Notes to Consolidated Financial Statements

The Public Hospital Redesign and Incentives in Medi-Cal (“PRIME”) program was approved as a part of the Medi-Cal 2020 Section 1115 demonstration waiver. The program participants include both designated public hospitals and district and municipal public hospitals. PRIME supported activities encourage participants to improve the manner in which care is delivered in order to maximize health care value and also to position participants to successfully transition managed care payments to alternative payment methodologies. The District’s participation in the program in 2016, its initial year of participation, and 2017 included creating the five-year implementation plan, completing related process measures, and developing PRIME project infrastructure. Participation in 2018 included submission of baseline data and participation in 2018 and 2019 included the measurement and achievement of quality improvement metrics. The State of California’s share of the Medi-Cal funding for the PRIME program is furnished by IGT’s from the participants. The District recognized other operating revenue of \$17.7 million and \$20.4 million related to the PRIME program in fiscal years 2019 and 2018, respectively.

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Supplemental Pension Information

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Kaweah Delta Health Care District Supplemental Pension Information

The following table summarizes the number of total plan participants at June 30:

	2019	2018
Active employees	747	784
Terminated vested	1,001	1,009
Retirees receiving benefits	763	730
Total participants	<u>2,511</u>	<u>2,523</u>

The following table summarizes changes in net pension liability from July 1, 2018 to June 30, 2019 (in thousands):

	2019	2018
Total pension liability		
Service cost	\$ -	\$ -
Interest	20,386	19,997
Differences between expected and actual experience	2,304	842
Changes in assumptions	(1,163)	5,446
Benefit payments	<u>(13,275)</u>	<u>(12,707)</u>
Net change in total pension liability	8,252	13,578
Total pension liability, beginning of the year	<u>270,819</u>	<u>257,241</u>
Total pension liability, end of the year	279,071	270,819
Plan fiduciary net position		
Employer contributions	11,400	11,400
Net investment income	20,001	25,925
Benefit payments	(13,275)	(12,707)
Administrative expenses	<u>(225)</u>	<u>(189)</u>
Net change in plan fiduciary net position	17,901	24,429
Plan fiduciary net position, beginning of the year	<u>229,921</u>	<u>205,492</u>
Plan fiduciary net position, end of the year	<u>247,822</u>	<u>229,921</u>
Net pension liability, end of the year	<u>\$ 31,249</u>	<u>\$ 40,898</u>
Plan fiduciary net position as percentage of total pension liability	<u>88.80%</u>	<u>84.90%</u>
Covered employee payroll	N/A	N/A
Net pension liability as percent of covered payroll	N/A	N/A

Kaweah Delta Health Care District Supplemental Pension Information

The District's actuarially determined contribution and actual contributions, since 2009, are presented in the following table (in thousands):

Fiscal Year Ended	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Excess (Deficiency)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a Percentage of Covered Payroll</u>
2010	\$ 12,910	\$ 12,911	\$ 1	\$ 66,642	19.4%
2011	11,324	11,326	2	N/A	N/A
2012	2,233	2,235	2	N/A	N/A
2013	4,093	4,095	2	N/A	N/A
2014	3,972	4,058	86	N/A	N/A
2015	2,673	3,720	1,047	N/A	N/A
2016	3,224	5,000	1,776	N/A	N/A
2017	6,879	9,000	2,121	N/A	N/A
2018	5,818	11,400	5,582	N/A	N/A
2019	4,533	11,400	6,867	N/A	N/A
	<u>\$ 57,659</u>	<u>\$ 75,145</u>	<u>\$ 17,486</u>		

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*Communication of Internal
Control Related Matters*

Kaweah Delta Health Care District

June 30, 2019

