

EAST KERN HEALTH CARE DISTRICT
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended
June 30, 2025
(With Comparative Amounts as of June 30, 2024)

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EAST KERN HEALTH CARE DISTRICT

For the Fiscal Year Ended June 30, 2025

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
East Kern Health Care District
California City, California

Opinion

We have audited the accompanying financial statements of the East Kern Health Care District (District), which comprise the balance sheet as of June 30, 2025, and the related statement of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2025, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principal

As described in Notes 1 and 8 to the financial statements, as of July 1, 2024, the District adopted new accounting guidance, GASB Statement No. 102, Certain Risk Disclosures. Our opinion is not modified with respect to these matters.

Management's Responsibility for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2024, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 15, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
June 15, 2026

EAST KERN HEALTH CARE DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2025

Management's Discussion and Analysis (MD&A) offers readers of the East Kern Health Care District's financial statements a narrative overview of the District's financial activities for the year ended June 30, 2025. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In fiscal year 2025, the District's net position decreased 1.53%, or \$41,668 from the prior year's net position of \$2,715,786 to \$2,674,118, as a result of the year's operations.
- In fiscal year 2025, total revenues decreased by 1.64%, or \$6,729 from \$409,528 to \$402,799, from the prior year, due to a decrease in property tax revenue.
- In fiscal year 2025, total expenses decreased by 2.04% or \$9,253 from \$453,720 to \$444,467, from the prior year, primarily due to a decrease in facilities expense.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

EAST KERN HEALTH CARE DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2025

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

Condensed Balance Sheets

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Change</u>
Assets:			
Current assets	\$ 1,268,535	\$ 1,605,215	\$ (336,680)
Restricted assets	41,205	41,164	41
Non-current assets	54,943	78,263	(23,320)
Capital assets, net	<u>1,434,807</u>	<u>1,130,932</u>	<u>303,875</u>
Total assets	<u>\$ 2,799,490</u>	<u>\$ 2,855,574</u>	<u>\$ (56,084)</u>
Liabilities:			
Current liabilities	<u>\$ 49,661</u>	<u>\$ 30,977</u>	<u>\$ 18,684</u>
Total liabilities	<u>49,661</u>	<u>30,977</u>	<u>18,684</u>
Deferred inflows of resources	<u>75,711</u>	<u>108,811</u>	<u>(33,100)</u>
Net position:			
Investment in capital assets	1,434,807	1,130,932	303,875
Restricted	41,205	41,164	41
Unrestricted	<u>1,198,106</u>	<u>1,543,690</u>	<u>(345,584)</u>
Total net position	<u>2,674,118</u>	<u>2,715,786</u>	<u>(41,668)</u>
Total liabilities, deferred inflows of resources and net	<u>\$ 2,799,490</u>	<u>\$ 2,855,574</u>	<u>\$ (56,084)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$2,674,118 as of June 30, 2025.

EAST KERN HEALTH CARE DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2025

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)

By far the largest portion of the District's net position (54% as of June 30, 2025) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of fiscal year 2025, the District showed a positive balance in its unrestricted net position of \$1,198,106 which may be utilized in future years.

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Change</u>
Operating revenues	\$ 70,464	\$ 70,530	\$ (66)
Operating expenses	<u>444,467</u>	<u>453,720</u>	<u>9,253</u>
Operating loss	(374,003)	(383,190)	9,187
Non-operating revenues	<u>332,335</u>	<u>338,998</u>	<u>(6,663)</u>
Change in net position	(41,668)	(44,192)	2,524
Net position – beginning of period	<u>2,715,786</u>	<u>2,759,978</u>	<u>(44,192)</u>
Net position – end of period	<u>\$ 2,674,118</u>	<u>\$ 2,715,786</u>	<u>\$ (41,668)</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position decreased 1.53%, or \$41,668 from the prior year's net position of \$2,715,786 to \$2,674,118, as a result of the year's operations.

Total Revenues

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Office rental	<u>\$ 70,464</u>	<u>\$ 70,530</u>	<u>\$ (66)</u>
Total program revenues	<u>70,464</u>	<u>70,530</u>	<u>(66)</u>
Non-operating revenues:			
Property taxes	282,079	297,318	(15,239)
Investment earnings	50,256	38,824	11,432
Other revenue	<u>-</u>	<u>2,856</u>	<u>(2,856)</u>
Total general revenues	<u>332,335</u>	<u>338,998</u>	<u>(6,663)</u>
Total revenues	<u>\$ 402,799</u>	<u>\$ 409,528</u>	<u>\$ (6,729)</u>

In fiscal year 2025, total revenues decreased by 1.64%, or \$6,729 from \$409,528 to \$402,799, from the prior year, due to a decrease in property tax revenue.

EAST KERN HEALTH CARE DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2025

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Expenses

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Increase (Decrease)</u>
Operating expenses:			
Salaries and wages	\$ 47,754	\$ 44,120	\$ 3,634
Facilities	114,556	147,044	(32,488)
Materials and services	227,158	211,096	16,062
Depreciation	54,999	51,460	3,539
Total expenses	<u>\$ 444,467</u>	<u>\$ 453,720</u>	<u>\$ (9,253)</u>

In fiscal year 2025, total expenses decreased by 2.04% or \$9,253 from \$453,720 to \$444,467, from the prior year, primarily due to a decrease in facilities expense.

Capital Assets

	<u>Balance June 30, 2025</u>	<u>Balance June 30, 2024</u>
Capital assets:		
Non-depreciable assets	\$ 178,205	\$ 440,455
Depreciable assets	2,199,615	1,578,491
Accumulated depreciation	<u>(943,013)</u>	<u>(888,014)</u>
Total capital assets, net	<u>\$ 1,434,807</u>	<u>\$ 1,130,932</u>

At the end of fiscal year 2025, the District's investment in capital assets amounted to \$1,434,807 (net of accumulated depreciation). See Note 5 for further information.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FACTORS AFFECTING CURRENT FINANCIAL POSITION

Management is unaware of any item that would affect the District's current financial position.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Manager at 8101 Bay Avenue, California City, CA 93505 – (760) 373-2804.

EAST KERN HEALTH CARE DISTRICT*Balance Sheet**June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

<u>ASSETS</u>	<u>2025</u>	<u>2024</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,150,115	\$ 1,524,820
Restricted – cash and cash equivalents (Note 3)	41,205	41,164
Accrued interest receivable	8,164	8,034
Property taxes receivable	59,096	-
Lease receivable (Note 4)	23,320	34,015
Prepaid items	27,840	38,346
Total current assets	1,309,740	1,646,379
Non-current assets:		
Lease receivable (Note 4)	54,943	78,263
Capital assets – not being depreciated (Note 5)	178,205	440,455
Capital assets – being depreciated, net (Note 5)	1,256,602	690,477
Total non-current assets	1,489,750	1,209,195
Total assets	\$ 2,799,490	\$ 2,855,574
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,296	\$ 25,827
Unearned revenue and deposits	6,365	5,150
Total liabilities	49,661	30,977
Deferred inflows of resources:		
Deferred amounts related to leases (Note 4)	75,711	108,811
Total deferred inflows of resources	75,711	108,811
Net position:		
Investment in capital assets	1,434,807	1,130,932
Restricted (Note 3)	41,205	41,164
Unrestricted	1,198,106	1,543,690
Total net position	2,674,118	2,715,786
Total liabilities, deferred inflows of resources and net position	\$ 2,799,490	\$ 2,855,574

EAST KERN HEALTH CARE DISTRICT*Statement of Revenues, Expenses and Changes in Net Position**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	<u>2025</u>	<u>2024</u>
Operating revenues:		
Office rental	\$ 70,464	\$ 70,530
Total operating revenues	<u>70,464</u>	<u>70,530</u>
Operating expenses:		
Salaries and wages	47,754	44,120
Facilities	114,556	147,044
Materials and services	227,158	211,096
Depreciation	<u>54,999</u>	<u>51,460</u>
Total operating expenses	<u>444,467</u>	<u>453,720</u>
Operating loss	<u>(374,003)</u>	<u>(383,190)</u>
Non-operating revenues:		
Property taxes	282,079	297,318
Investment earnings	50,256	38,824
Other revenue	<u>-</u>	<u>2,856</u>
Total non-operating revenues	<u>332,335</u>	<u>338,998</u>
Change in net position	<u>(41,668)</u>	<u>(44,192)</u>
Net position:		
Beginning of year	<u>2,715,786</u>	<u>2,759,978</u>
End of year	<u><u>\$ 2,674,118</u></u>	<u><u>\$ 2,715,786</u></u>

EAST KERN HEALTH CARE DISTRICT*Statement of Cash Flows**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash received from customers	\$ 105,694	\$ (3,990)
Cash paid to employees for salaries and wages	(41,293)	(41,777)
Cash payments for operating expenses	<u>(353,300)</u>	<u>(264,758)</u>
Net cash used in operating activities	<u>(288,899)</u>	<u>(310,525)</u>
Cash flows from non-capital related financing activities:		
Property taxes	<u>222,983</u>	<u>297,318</u>
Net cash provided by non-capital related financing activities	<u>222,983</u>	<u>297,318</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(358,874)</u>	<u>(262,250)</u>
Net cash used in capital related financing activities	<u>(358,874)</u>	<u>(262,250)</u>
Cash flows from investing activities:		
Investment earnings	<u>50,126</u>	<u>36,174</u>
Net cash provided by investing activities	<u>50,126</u>	<u>36,174</u>
Net decrease in cash and cash equivalents	<u>(374,664)</u>	<u>(239,283)</u>
Cash and cash equivalents:		
Beginning of year	<u>1,565,984</u>	<u>1,805,267</u>
End of year	<u>\$ 1,191,320</u>	<u>\$ 1,565,984</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents	\$ 1,150,115	\$ 1,524,820
Restricted – cash and cash equivalents	<u>41,205</u>	<u>41,164</u>
Total cash and cash equivalents on the balance sheet:	<u>\$ 1,191,320</u>	<u>\$ 1,565,984</u>

EAST KERN HEALTH CARE DISTRICT*Statement of Cash Flows (continued)**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	<u>2025</u>	<u>2024</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (374,003)	\$ (383,190)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	54,999	51,460
Other non-operating revenues	-	2,856
Increase (decrease) in assets:		
Prepaid items	10,506	(5,240)
Accounts receivable	-	3,200
Lease receivable	34,015	(80,576)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	17,469	21,297
Unearned revenue and deposits	1,215	-
Increase (decrease) in deferred inflows of resources:		
Deferred amounts related to leases	<u>(33,100)</u>	<u>79,668</u>
Net cash used in operating activities	<u><u>\$ (288,899)</u></u>	<u><u>\$ (310,525)</u></u>

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The East Kern Health Care District (District) is located in California City, California. The District leases office space to local health care providers to facilitate the organization and delivery of comprehensive health care services to the people of East Kern County. The East Kern Health Care District is a special district organized under the California Health and Safety Code. The District operates under an elected Board of Directors-Administrator form of government.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Prepaid Items

Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Position (continued)

4. Lease Receivable and Deferred Inflows of Resources

The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. As a lessor, the District is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The District's lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee's revenue.

The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

5. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets.

Estimated service lives for the District's classes of assets are as follows:

<u>Asset Class</u>	<u>Useful Lives</u>
Buildings and improvements	5-50 years
Equipment	5-20 years

6. Deferred Inflows of Resources

In addition to liabilities, the fund balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

7. Net Position

Net position is classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- **Investment in capital assets** - This component of net position consists of capital assets net of accumulated depreciation.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net position consists of net position that does not meet the definition of "investment in capital assets or restricted."

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Use of Estimates

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

E. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1, each year. Secured property taxes are levied on July 1 and are payable in two installments, on December 10 and April 10. The County of Kern County Assessor's Office assesses all real and personal property within the County each year.

Property tax in California is levied in accordance with Article 13A of the State Constitution at one (1%) of countywide assessed valuations. The County Auditor-Controller's Office remits an undisclosed portion of the one (1%) current and delinquent property tax collections to the District throughout the year.

F. New Pronouncements – Governmental Accounting Standards (GASB)

During the fiscal year ended June 30, 2025, the District implemented a new pronouncement as follows:

GASB Statement No. 102 – Certain Risk Disclosures

This GASB Statement requires state and local governments to disclose vulnerabilities due to certain concentrations and constraints that could significantly impact their financial health. A concentration refers to a dependency on a specific source such as a major revenue stream, customer, supplier, or workforce while a constraint involves legal, regulatory, contractual, or other external limitations that restrict an entity's ability to respond to those risks. If these factors make the government vulnerable to a near-term severe impact, disclosure is required in the notes to the financial statements. The goal of Statement No. 102 is to improve transparency and provide users with better insight into potential risks that could affect a government's financial condition. The District adopted the Statement as of July 1, 2024. See Note 8 for the effect of this Statement.

EAST KERN HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2025

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2025 on the balance sheet:

<u>Description</u>	<u>June 30, 2025</u>
Cash and cash equivalents	\$ 1,150,115
Restricted – cash and cash equivalents	<u>41,205</u>
Total cash and cash equivalents	<u>\$ 1,191,320</u>

Cash and cash equivalents at June 30, 2025 on the balance sheet consisted of the following:

<u>Description</u>	<u>June 30, 2025</u>
Cash on hand	\$ 300
Demand deposits with financial institutions	444,968
Local Agency Investment Fund (LAIF)	<u>746,052</u>
Total cash and cash equivalents	<u>\$ 1,191,320</u>

Demand Deposits

At June 30, 2025, the carrying amount of the District's demand deposits were \$444,968 and the financial institutions balance totaled \$479,854. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Local Agency Investment Fund (LAIF)

The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests taxpayers' money to manage the State's cash flow and strengthen the financial security of local governmental entities. PMIA policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). The LAIF allows cities, counties and special districts to place money in a major portfolio and, at no additional costs to taxpayers, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from the LAIF at any time as LAIF is highly liquid and carries a dollar-in dollar-out amortized cost methodology.

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 2 – CASH AND INVESTMENTS (continued)

Local Agency Investment Fund (LAIF) (continued)

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2025, the District held \$746,052 in LAIF.

NOTE 3 – RESTRICTED ASSETS AND RESTRICTED NET POSITION

Restricted assets as of June 30, 2025, were categorized as follows:

<u>Description</u>	<u>June 30, 2025</u>
Cancer funds	\$ 41,205
Total restricted net position	\$ 41,205

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES

Changes in the District's lease receivable is as follows:

<u>Description</u>	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2025</u>
Rental property No. 1	\$ 64,340	\$ -	\$ (14,651)	\$ 49,689
Rental property No. 2	36,781	-	(8,207)	28,574
Rental property No. 3	11,157	-	(11,157)	-
Total lease receivable	\$ 112,278	\$ -	\$ (34,015)	\$ 78,263

The District is reporting a total lease receivable of \$78,263 and a total related deferred inflows of resources of \$75,711 for the year ending June 30, 2025. Also, the District is reporting total lease revenue of \$33,100 and interest revenue of \$1,907 related to lease payments received.

The lease held by the District does not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2.00% to discount the lease revenue to the net present value. In some cases leases contain termination clauses. In these cases the clause requires the lessee or lessor to show cause to terminate the lease. Also, certain leasing-types are considered "volatile leases." Those volatile leases were not extended past their initial lease period for financial statement recognition due to their volatility.

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

The Included Leases are summarized as follows:

Rental Property No.1

The District, on July, 1, 2020, signed a 39 month lease as lessor for the use of commercial property. The lease was renewed for an additional 60-month period. A lease receivable was recorded in the amount of \$73,135. As of June 30, 2025, the value of the lease receivable was \$49,689. The lease is required to make monthly fixed payments of \$998 for the first 6-month period and increase to \$1,137 for the remainder of the lease. The lease held by the District does not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2% to discount the lease revenue to the net present value. The value of the deferred inflow of resource was \$47,603 as of June 30, 2025. The District recognized lease revenue of \$14,647 and interest revenue of \$1,153 during the fiscal year. Since this is considered a volatile lease only the initial period has been recognized.

Rental Property No.2

The District, on November, 1, 2020, signed a 36 month lease as lessor for the use of commercial property. The lease was renewed for an additional 60-month period. A lease receivable was recorded in the amount of \$42,162. As of June 30, 2025, the value of the lease receivable was \$28,574. The lease is required to make monthly fixed payments of \$739. The lease held by the District does not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2% to discount the lease revenue to the net present value. The value of the deferred inflow of resource was \$28,108 as of June 30, 2025. The District recognized lease revenue of \$8,432 and interest revenue of \$661 during the fiscal year. Since this is considered a volatile lease only the initial period has been recognized.

Rental Property No.3

The District, on July, 1, 2020, signed a 57 month lease as lessor for the use of commercial property. An initial lease receivable was recorded in the amount of \$63,461. As of June 30, 2025, the value of the lease receivable was \$0. The lease is required to make monthly fixed payments of \$812.50 for the first 6-month period, then increase to \$937.50 for the next 6-month period, and increase to \$1,250 for the remainder of the lease term. The lease held by the District does not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2% to discount the lease revenue to the net present value. The value of the deferred inflow of resource was \$0 as of June 30, 2025. The District recognized lease revenue of \$10,021 and interest revenue of \$93 during the fiscal year. Since this is considered a volatile lease only the initial period has been recognized.

Minimum future lease receipts for the next five fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 23,320	\$ 1,352	\$ 24,672
2027	23,790	882	24,672
2028	24,271	401	24,672
2029	6,882	25	6,907
Total	78,263	\$ 2,660	\$ 80,923
Current	(23,320)		
Long-term	\$ 54,943		

EAST KERN HEALTH CARE DISTRICT*Notes to Financial Statements**June 30, 2025***NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)**

Changes in the District's deferred inflows of resources related to leases is as follows:

Description	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Rental property No. 1	\$ 62,250	\$ -	\$ (14,647)	\$ 47,603
Rental property No. 2	36,540	-	(8,432)	28,108
Rental property No. 3	10,021	-	(10,021)	-
Total deferred inflows	\$ 108,811	\$ -	\$ (33,100)	\$ 75,711

The amounts reported as deferred inflows of resources related to the leases for the year ended June 30, 2025, will be amortized in future periods as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Inflows of Resources
2026	\$ 23,079
2027	23,079
2028	23,079
2029	6,474
Total	\$ 75,711

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2025, was as follows:

Description	Balance July 1, 2024	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2025
Non-depreciable capital assets:				
Land	\$ 178,205	\$ -	\$ -	\$ 178,205
Construction-in-progress	262,250	327,084	(589,334)	-
Total non-depreciable capital assets	440,455	327,084	(589,334)	178,205
Depreciable capital assets:				
Buildings and improvements	1,578,491	621,124	-	2,199,615
Total depreciable capital assets	1,578,491	621,124	-	2,199,615
Accumulated depreciation:				
Buildings and improvements	(888,014)	(54,999)	-	(943,013)
Total accumulated depreciation	(888,014)	(54,999)	-	(943,013)
Total depreciable capital assets, net	690,477	566,125	-	1,256,602
Total capital assets, net	\$ 1,130,932	\$ 893,209	\$ (589,334)	\$ 1,434,807

EAST KERN HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2025

NOTE 6 – CANCER FUNDS

Cancer funds activity for the year ended June 30, 2025, was as follows:

Description	Net Position
Restricted – June 30, 2024	\$ 41,164
Donations	-
Interest earnings	41
Restricted – June 30, 2025	<u>\$ 41,205</u>

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

A. Entity	SDRMA
B. Purpose	To pool member contributions and realize the
C. Participants	As of June 30, 2025: 503 member agencies for Property/Liability 427 member agencies for Workers' Compensation
D. Governing board	Seven representatives employed by members
E. District payments for FY 2025:	
Property/Liability policy	\$29,427
Workers' compensation policy	\$1,025
F. Condensed financial information	June 30, 2025

Statement of net position:	June 30, 2025
Total assets	<u>\$ 185,602,180</u>
Deferred outflows	<u>1,361,901</u>
 Total liabilities	 <u>78,502,352</u>
Deferred inflows	<u>332,457</u>
 Net position	 <u><u>\$ 108,129,272</u></u>
 Statement of revenues, expenses and changes in net position:	
Total revenues	\$ 136,035,247
Total expenses	<u>(113,092,341)</u>
 Change in net position	 22,942,906
 Beginning – net position	 <u>85,186,366</u>
Ending – net position	<u><u>\$ 108,129,272</u></u>

G. Member agencies share of year-end financial position	Not Calculated
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At June 30, 2025, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,500,000, combined single limit at \$2,500,000 per occurrence.

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 7 – RISK MANAGEMENT (continued)

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.
- Workers' compensation insurance per statutory requirements and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2025, 2024 and 2023. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2025, 2024 and 2023.

NOTE 8 – RISK DISCLOSURE: CONCENTRATION OF REVENUE SOURCE (GASB STATEMENT No. 102)

The District receives a significant portion of its revenue from a limited number of sources. For the fiscal year ended June 30, 2025, approximately 70% of the District's total revenues were derived from property taxes collected within the Kern County. In addition, approximately 17% of total revenues were generated from rental income related to District-owned properties. This reliance exposes the District to a concentration risk as defined under GASB Statement No. 102, Risk Disclosures. A significant decline in assessed property values, changes in county tax collection policies, demand for the properties it leases or broader economic conditions affecting Kern County could materially impact the District's primary funding source.

The District monitors tax collection trends and maintains reserves in accordance with its financial policies to mitigate the potential impact of delayed or reduced revenues.

In accordance with GASB Statement No. 102, Risk Disclosures, this note serves to disclose the concentration of revenue and associated risks that could significantly impact the District's financial position and results of operations.

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2025

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition

NOTE 10 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 15, 2026, the date which the financial statements were available to be issued.

Other Independent Auditors' Reports



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
East Kern Health Care District
California City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the East Kern Health Care District (District), which comprise the balance sheet as of June 30, 2025, and the related statement of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 15, 2026.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
June 15, 2026