

**EAST KERN HEALTH CARE DISTRICT
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended
June 30, 2020
(With Comparative Amounts as of June 30, 2019)**



EAST KERN HEALTH CARE DISTRICT
For the Fiscal Year Ended June 30, 2020
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Financial Section

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the East Kern Health Care District (District), which comprise the balance sheet as of June 30, 2020, 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.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2020, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***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, 2019, 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 May 31, 2021, 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
May 31, 2021

EAST KERN HEALTH CARE DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2020

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, 2020. 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 2020, the District's net position decreased 4.88%, or \$107,165 from the prior year's net position of \$2,197,525 to \$2,090,360, as a result of the year's operations.
- In fiscal year 2020, total revenues increased by 5.35%, or \$14,537 from \$271,574 to \$286,111, from the prior year.
- In fiscal year 2020, total expenses increased by 118.78% or \$213,517 from \$179,759 to \$393,276, from the prior year, primarily due to the District evaluating its capital assets lives and depreciation expense which resulted in a \$169,341 increase in depreciation expense in fiscal year 2020.

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, 2020

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, 2020</u>	<u>June 30, 2019</u>	<u>Change</u>
Assets:			
Current assets	\$ 996,930	\$ 912,647	\$ 84,283
Restricted assets	40,648	33,200	7,448
Capital assets, net	<u>1,074,522</u>	<u>1,251,678</u>	<u>(177,156)</u>
Total assets	<u>\$ 2,112,100</u>	<u>\$ 2,197,525</u>	<u>\$ (85,425)</u>
Liabilities:			
Current liabilities	<u>\$ 21,740</u>	<u>\$ -</u>	<u>\$ 21,740</u>
Total liabilities	<u>21,740</u>	<u>-</u>	<u>21,740</u>
Net position:			
Investment in capital assets	1,074,522	1,251,678	(177,156)
Restricted	40,648	33,200	7,448
Unrestricted	<u>975,190</u>	<u>912,647</u>	<u>62,543</u>
Total net position	<u>2,090,360</u>	<u>2,197,525</u>	<u>(107,165)</u>
Total liabilities and net position	<u>\$ 2,112,100</u>	<u>\$ 2,197,525</u>	<u>\$ (85,425)</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 \$2,090,360 as of June 30, 2020.

EAST KERN HEALTH CARE DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)

By far the largest portion of the District's net position (51% as of June 30, 2020) 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 year 2020, the District showed a positive balance in its unrestricted net position of \$975,190 which may be utilized in future years.

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Change</u>
Operating revenues	\$ 47,988	\$ 50,476	\$ (2,488)
Operating expenses	<u>393,276</u>	<u>179,759</u>	<u>213,517</u>
Operating loss	(345,288)	(129,283)	211,029
Non-operating revenues	<u>238,123</u>	<u>221,098</u>	<u>17,025</u>
Change in net position	(107,165)	91,815	(198,980)
Net position - beginning of period	<u>2,197,525</u>	<u>2,105,710</u>	<u>91,815</u>
Net position - end of period	<u>\$ 2,090,360</u>	<u>\$ 2,197,525</u>	<u>\$ (107,165)</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 4.88%, or \$107,165 from the prior year's net position of \$2,197,525 to \$2,090,360, as a result of the year's operations.

EAST KERN HEALTH CARE DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Revenues

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Office rental	\$ 47,026	\$ 43,776	\$ 3,250
Other revenue	962	6,700	(5,738)
Total program revenues	<u>47,988</u>	<u>50,476</u>	<u>(2,488)</u>
Non-operating revenues:			
Property taxes	217,287	204,421	12,866
Investment earnings	13,438	12,453	985
Cancer fund donations, net	7,398	4,224	3,174
Total general revenues	<u>238,123</u>	<u>221,098</u>	<u>17,025</u>
Total revenues	<u>\$ 286,111</u>	<u>\$ 271,574</u>	<u>\$ 14,537</u>

In fiscal year 2020, total revenues increased by 5.35%, or \$14,537 from \$271,574 to \$286,111, from the prior year.

Total Expenses

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>
Operating expenses:			
Facilities	\$ 90,671	\$ 68,421	22,250
Materials and services	87,249	65,323	21,926
Depreciation	215,356	46,015	169,341
Total expenses	<u>\$ 393,276</u>	<u>\$ 179,759</u>	<u>\$ 213,517</u>

In fiscal year 2020, total expenses increased by 118.78% or \$213,517 from \$179,759 to \$393,276, from the prior year, primarily due to the District evaluating its capital assets lives and depreciation expense which resulted in a \$169,341 increase in depreciation expense in fiscal year 2020.

EAST KERN HEALTH CARE DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Capital Assets

	Balance	Balance
	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Capital assets:		
Non-depreciable assets	\$ 178,205	\$ 178,205
Depreciable assets	1,578,491	1,943,901
Accumulated depreciation	<u>(682,174)</u>	<u>(870,428)</u>
Total capital assets, net	<u>\$ 1,074,522</u>	<u>\$ 1,251,678</u>

At the end of year 2020, the District's investment in capital assets amounted to \$1,074,522 (net of accumulated depreciation), respectively. Capital asset additions amounted to \$38,200 for various improvement projects. See Note 4 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.

CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

Global Pandemic

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the District is unknown at this time.

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, 2020 (With Comparative Amounts as of June 30, 2019)*

<u>ASSETS</u>	<u>2020</u>	<u>Restated 2019</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 994,823	\$ 909,868
Restricted – cash and cash equivalents (Note 3)	40,648	33,200
Accrued interest receivable	2,107	2,779
Total current assets	<u>1,037,578</u>	<u>945,847</u>
Non-current assets:		
Capital assets – not being depreciated (Note 4)	178,205	178,205
Capital assets – being depreciated, net (Note 4)	896,317	1,073,473
Total non-current assets	<u>1,074,522</u>	<u>1,251,678</u>
Total assets	<u>\$ 2,112,100</u>	<u>\$ 2,197,525</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,240	\$ -
Unearned revenue and deposits	17,500	-
Total liabilities	<u>21,740</u>	<u>-</u>
Net position:		
Investment in capital assets	1,074,522	1,251,678
Restricted (Note 3)	40,648	33,200
Unrestricted	975,190	912,647
Total net position	<u>2,090,360</u>	<u>2,197,525</u>
Total liabilities and net position	<u>\$ 2,112,100</u>	<u>\$ 2,197,525</u>

EAST KERN HEALTH CARE DISTRICT*Statement of Revenues, Expenses and Changes in Net Position**For the Fiscal Year Ended June 30, 2020 (With Comparative Amounts as of June 30, 2019)*

	<u>2020</u>	<u>Restated 2019</u>
Operating revenues:		
Office rental	\$ 47,026	\$ 43,776
Other revenue	962	6,700
Total operating revenues	<u>47,988</u>	<u>50,476</u>
Operating expenses:		
Facilities	90,671	68,421
General and administrative	87,249	65,323
Depreciation	215,356	46,015
Total operating expenses	<u>393,276</u>	<u>179,759</u>
Operating loss	<u>(345,288)</u>	<u>(129,283)</u>
Non-operating revenues:		
Property taxes	217,287	204,421
Investment earnings	13,438	12,453
Cancer fund donations, net (Note 5)	7,398	4,224
Total non-operating revenues	<u>238,123</u>	<u>221,098</u>
Change in net position	(107,165)	91,815
Net position:		
Beginning of year, as restated	<u>2,197,525</u>	<u>2,105,710</u>
End of year	<u>\$ 2,090,360</u>	<u>\$ 2,197,525</u>

EAST KERN HEALTH CARE DISTRICT*Statement of Cash Flows**For the Fiscal Year Ended June 30, 2020 (With Comparative Amounts as of June 30, 2019)*

	<u>2020</u>	<u>Restated 2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 72,886	\$ 54,700
Cash payments for operating expenses	(173,680)	(141,744)
Net cash used in operating activities	<u>(100,794)</u>	<u>(87,044)</u>
Cash flows from non-capital related financing activities:		
Property taxes	217,287	204,615
Net cash provided by non-capital related financing activities	<u>217,287</u>	<u>204,615</u>
Cash flows from capital related financing activities:		
Acquisition and construction of capital assets	(38,200)	(107,924)
Principal repayment of note payable	-	(3,613)
Interest repayment of note payable	-	(41)
Net cash used in capital related financing activities	<u>(38,200)</u>	<u>(111,578)</u>
Cash flows from investing activities:		
Investment earnings	14,110	9,674
Net cash provided by investing activities	<u>14,110</u>	<u>9,674</u>
Net increase in cash and cash equivalents	92,403	15,667
Cash and cash equivalents:		
Beginning of year	943,068	927,401
End of year	<u>\$ 1,035,471</u>	<u>\$ 943,068</u>
	<u>2020</u>	<u>2019</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents	\$ 994,823	\$ 909,868
Restricted – cash and cash equivalents	40,648	33,200
Total cash and cash equivalents on the balance sheet:	<u>\$ 1,035,471</u>	<u>\$ 943,068</u>

EAST KERN HEALTH CARE DISTRICT*Statement of Cash Flows (continued)**For the Fiscal Year Ended June 30, 2020 (With Comparative Amounts as of June 30, 2019)*

	<u>2020</u>	<u>Restated 2019</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (345,288)	\$ (129,283)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	215,356	46,015
Cancer fund donations, net	7,398	4,224
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	4,240	(8,000)
Unearned revenue and deposits	17,500	-
	<u>17,500</u>	<u>-</u>
Net cash used in operating activities	<u>\$ (100,794)</u>	<u>\$ (87,044)</u>

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2020

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, 2020

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. 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

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2020

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Net Position

Net position is classified into two components: net investment in capital assets 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.”

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 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. Reclassifications

Certain amounts presented in the balance sheet and the statement of revenues, expenses and changes in net position in the comparative prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported change in net position.

EAST KERN HEALTH CARE DISTRICT
Notes to Financial Statements
June 30, 2020

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2020 on the balance sheet:

<u>Description</u>	<u>June 30, 2020</u>
Cash and cash equivalents	\$ 994,823
Restricted – cash and cash equivalents	<u>40,648</u>
Total cash and cash equivalents	<u>\$ 1,035,471</u>

Cash and cash equivalents at June 30, 2020 on the balance sheet consisted of the following:

<u>Description</u>	<u>June 30, 2020</u>
Demand deposits with financial institutions	\$ 415,242
Local Agency Investment Fund (LAIF)	<u>620,229</u>
Total cash and cash equivalents	<u>\$ 1,035,471</u>

Demand Deposits

At June 30, 2020, the carrying amount of the District’s demand deposits were \$415,242 and the financial institutions balance totaled \$417,192. 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 Depository 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, 2020

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 the 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, 2020, the District held \$620,229 in LAIF.

NOTE 3 – RESTRICTED ASSETS AND RESTRICTED NET POSITION

Restricted assets as of June 30, 2020, were categorized as follows:

<u>Description</u>	<u>June 30, 2020</u>
Cancer funds	\$ 40,648
Total restricted net position	\$ 40,648

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2020, was as follows:

<u>Description</u>	<u>Balance July 1, 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2020</u>
Non-depreciable capital assets:				
Land	\$ 178,205	\$ -	\$ -	\$ 178,205
Construction-in-progress	-	38,200	(38,200)	-
Total non-depreciable capital assets	178,205	38,200	(38,200)	178,205
Depreciable capital assets:				
Buildings and improvements	1,860,050	38,200	(319,759)	1,578,491
Equipment	83,851	-	(83,851)	-
Total depreciable capital assets	1,943,901	38,200	(403,610)	1,578,491
Accumulated depreciation:				
Buildings and improvements	(788,175)	(213,758)	319,759	(682,174)
Equipment	(82,253)	(1,598)	83,851	-
Total accumulated depreciation	(870,428)	(215,356)	403,610	(682,174)
Total depreciable capital assets, net	1,073,473	(177,156)	-	896,317
Total capital assets, net	\$ 1,251,678	\$ (138,956)	\$ (38,200)	\$ 1,074,522

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2020

NOTE 5 – PRIOR PERIOD ADJUSTMENT – NET POSITION

Beginning net position as of July 1, 2019 was restated by \$2,366, for the District’s accrued interest receivable and to revise the property tax receivable as of June 30, 2019 as noted below:

<u>Description</u>	<u>Net Position</u>
Net position – June 30, 2019, as stated	<u>\$ 2,195,159</u>
Prior period adjustment:	
Accrued interest receivable	2,779
Property tax receivable	<u>(413)</u>
Total prior period adjustment	<u>2,366</u>
Net position – June 30, 2019, as restated	<u><u>\$ 2,197,525</u></u>

Beginning net position as of July 1, 2018 was restated by \$8,985, for the District’s cancer fund donations received prior to June 30, 2018 as noted below:

<u>Description</u>	<u>Net Position</u>
Net position – June 30, 2018, as stated	<u>\$ 2,096,725</u>
Prior period adjustment:	
Cancer fund donations	<u>8,985</u>
Total prior period adjustment	<u>8,985</u>
Net position – June 30, 2018, as restated	<u><u>\$ 2,105,710</u></u>

NOTE 6 – 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 has engaged insurance products to guard against the various risks of loss noted above.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District’s insurance coverage during the years ending June 30, 2020, 2019, and 2018. 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, 2020, 2019, and 2018.

EAST KERN HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2020

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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 8 – CURRENT AND SUBSEQUENT EVENTS

Global Pandemic

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the District is unknown at this time.

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 governmental activities and the General Fund of East Kern Health Care District (District) as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 31, 2021.

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 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
May 31, 2021