Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information

Kaweah Delta Health Care District

June 30, 2020 and 2019

MOSSADAMS

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Kaweah Delta Health Care District's (the "District") discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position, and identify any material deviations from the financial plan (the approved budget). Unless otherwise noted, all discussion and analysis pertains to the District's financial condition, results of operations, and cash flows as of and for the year ended June 30, 2020. Please read it in conjunction with the consolidated financial statements in this report.

Financial Highlights

- The District's net position decreased by $6.8 million, or 1.4%, primarily attributable to the year's net loss (loss before contributions). Total assets increased by $48.7 million, or 5.4%. Cash and investments increased by $70.9 million, or 21.3%, due to the collection of patient accounts receivable as well as $43.8 million received from the Medicare advance payment program, which is recorded as a current liability. Capital assets increased $2.0 million to $338.4 million with $27.1 million in net additions to buildings, equipment, and construction-in-progress, exceeding a $25.1 million net increase in accumulated depreciation.

- The District's total operating revenues decreased to $734.3 million, a 2.3% decrease from the prior year, while total operating expenses increased to $769.5 million, an increase of 5.1%. The current year decrease in total operating revenues is due to a $24.0 million decrease in net patient services revenue and a $4.4 million decrease in other revenue, offset by a $10.0 million increase in premium revenue. The decrease in net patient services revenue is driven by a $19.7 million decrease in Medi-Cal disproportionate share funding and other supplemental payment programs, as well as the impact of COVID-19 during the last quarter of the fiscal year. The increase in premium revenue is due to an increase in the number of covered lives as well as an increase in the per member payment amount. The decrease in PRIME funding is the primary contributor to the decrease in other revenue.

- Capital contributions to Kaweah Delta Hospital Foundation (the "Foundation") were $851,000 in fiscal year 2020 and remained consistent with fiscal year 2019.

- During the fiscal year, the District made the following significant capital expenditures:

  - Construction and equipment costs related to the infill of the fifth and sixth floors in the Acequia Wing of the Medical Center

  - Construction costs related to the expansion of the emergency department and the inpatient pharmacy remodel

  - Acquisition of land and building and related improvements related to a new rural health clinic

  - DaVinci surgical robot

  - New patient care beds

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

Required Consolidated Financial Statements

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

TABLE 1

Financial Analysis of the District

Condensed Consolidated Statements of Net Position

(in thousands)

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

	June 30, 2020	June 30, 2019	Dollar Change	Total % Change
Current and other assets	$ 614,300	$ 567,685	$ 46,615	8.2%
Capital assets	338,399	336,359	2,040	0.6%
Total assets	952,699	904,044	48,655	5.4%
Deferred outflows	9,354	5,866	3,488	59.5%
Total assets and deferred outflows	$ 962,053	$ 909,910	$ 52,143	5.7%
Current and other liabilities	$ 226,958	$ 163,738	$ 63,220	38.6%
Long-term debt outstanding	262,656	258,727	3,929	1.5%
Total liabilities	489,614	422,465	67,149	15.9%
Deferred inflows	-	8,206	(8,206)	-100.0%
Net investment in capital assets	104,433	105,427	(994)	-0.9%
Restricted	30,567	30,090	477	1.6%
Unrestricted	337,439	343,722	(6,283)	-1.8%
Total net position	472,439	479,239	(6,800)	-1.4%
Total liabilities, deferred inflows, and net position	$ 962,053	$ 909,910	$ 52,143	5.7%

As reflected in Table 1, net position decreased $6.8 million to $472.4 million for the year ended June 30, 2020, primarily attributable to the District's $7.7 million loss before contributions.

TABLE 2

Financial Analysis of the District (continued)

Condensed Consolidated Statements of Net Position

(in thousands)

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

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

As reflected in Table 2, net position increased $28.8 million to $479.2 million for the year ended June 30, 2019, primarily attributable to the District's $27.9 million income before contributions.

TABLE 3

Financial Analysis of the District (continued)

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

(in thousands)

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

	Years Ended June 30, 2020	Years Ended June 30, 2019	Dollar Change	Total % Change
Net patient services revenue	$ 614,435	$ 638,382	$ (23,947)	-3.8%
Premium revenue	50,903	40,871	10,032	24.5%
Management services revenue	32,805	31,751	1,054	3.3%
Other operating revenue	36,205	40,569	(4,364)	-10.8%
Total operating revenues	734,348	751,573	(17,225)	-2.3%
Salaries and benefits	384,975	363,289	21,686	6.0%
Medical and other supplies	148,816	141,150	7,666	5.4%
Medical and other fees and services	151,487	145,592	5,895	4.0%
Maintenance, utilities, and rent	37,974	37,743	231	0.6%
Depreciation and amortization	30,678	30,851	(173)	-0.6%
Other	15,537	13,285	2,252	17.0%
Total operating expenses	769,467	731,910	37,557	5.1%
Operating (loss) income	(35,119)	19,663	(54,782)	-278.6%
Nonoperating revenues – net of nonoperating expenses	27,468	8,245	19,223	-233.1%
(Loss) income before contributions	(7,651)	27,908	(35,559)	-127.4%
Capital contributions	851	861	(10)	-1.2%
Change in net position	(6,800)	28,769	(35,569)	-123.6%
Net position – beginning of year	479,239	450,470	28,769	6.4%
Net position – end of year	$ 472,439	$ 479,239	$ (6,800)	-1.4%

TABLE 4

Financial Analysis of the District (continued)

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

(in thousands)

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

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

Sources of Revenue

Operating revenues – For fiscal year 2020, the District derived 95.4% of its total revenues from operations. Operating revenues include, among other items, patient care revenue from Medicare, Medi-Cal, and other federal, state, and local government programs, and commercial insurance payers and patients; management services revenue associated with the District's forty-five percent (45%) ownership in SRCC-Medical Oncology, LLC, a management services organization providing staff, facilities, and administrative services to a medical oncology physician group; premium revenue associated with a capitated Medicare Advantage contract; cafeteria sales; PRIME program revenue; membership sales and dues from a District-owned health and fitness center; and minority ownership interests in a free-standing ambulatory surgery center, an assisted living center, and a memory care facility.

Nonoperating revenues – For fiscal year 2020, the District derived 4.6% of its total revenues from nonoperating revenues. Nonoperating revenues include investment income, Federal stimulus funds, gain on the sale of capital assets and property tax revenue including that associated with the general obligation bonds as well as an allocation of general property taxes assessed by the County of Tulare on properties residing within the District's geographical boundaries.

Operating and Financial Performance

The following summarizes the District's consolidated statements of revenues, expenses, and changes in net position between 2020 and 2019:

Acute admissions decreased by 2,659 or 9.9%, to 24,291 and acute patient days decreased by 9,330, or 7.0%, to 123,476. Skilled nursing and long-term subacute patient days also decreased by 1.7% with 21,162 in 2020 and 21,536 in 2019. Outpatient equivalent patient days, a measure of overall outpatient activity, increased slightly, 0.3%, from 2019 levels. Increases in rural health clinic registrations, home health visits, and cardiology clinic visits, were offset by decreases in outpatient therapy and dialysis treatments, and emergency department and urgent care visits. Inpatient admissions and outpatient activity was significantly impacted by COVID-19 during the last quarter of the fiscal year.

Net patient services revenue decreased $23.9 million, or 3.8%, in 2020. The decrease in net patient services revenue can mainly be attributed to the decrease in volume noted above as well as the $19.7 million decrease in Medi-Cal disproportionate share funding and other supplemental payment programs.

The District participates in various supplemental payment programs administered by the State of California as discussed in detail in the notes to the consolidated financial statements. In fiscal years 2020 and 2019, the District recognized increases (decreases) to net patient services revenue of $20.8 million and $12.0 million related to the QAF Managed Care Medi-Cal program; ($3.7million) and $9.7 million related to the AB113 IGT FFS Medi-Cal Inpatient program; and $17.8 million and $22.7 million related to the Rate Range IGT Managed Medi-Cal program, respectively.

Management services revenue increased $1.1 million, or 3.3%, from 2019. The increase in revenue is primarily associated with the increase in revenue generated by the SRCC-Medical Oncology joint venture.

Premium revenue associated with a capitated Medicare Advantage contract increased by $10.0 million, or 24.5%, from 2019 due to an increase in the number of covered lives as well as an increase in the per member payment amount.

Other operating revenue consists primarily of PRIME program revenue, cafeteria sales, equity ownership in an ambulatory surgery center, assisted living center, and memory care facility, contributions, and health and fitness center membership sales and dues. Other operating revenue decreased by $4.4 million, or 10.8%. This decrease is primarily related to a decrease in PRIME revenue recognized.

Salaries and benefits expense increased $21.7 million, or 6.0%. Salaries and wages increased $20.8 million, or 7.2%, and employee benefits expense increased $934,000, or 1.3%, from 2019. The increase in salaries and wages was attributable to an increase in hours paid ($2.3 million due to activities related to COVID-19), the conversion of contract labor to employed labor and wage related adjustments.

Medical and other supplies increased $7.7 million, or 5.4%, from 2019 including $1.4 million related to COVID-19 purchases for testing and personal protective equipment purchases, as well as increases in lab supplies, surgical supplies, minor medical equipment and pharmaceutical costs associated with SRCC-Medical Oncology volume and the retail pharmacy.

Medical and other fees and services increased $5.9 million, or 4.0%, mainly due to a $4.3 million increase in third party purchased service cost related to the Medicare Advantage contract for which the District receives revenue on a capitation basis, and the remainder related to an increase in physician fees.

Maintenance, utilities, and rent increased by $231,000, or 0.6%, during 2020 primarily due to an increase in utilities.

Depreciation and amortization expense decreased $173,000, or 0.6%.

Other expenses increased $2.3 million, or 17.0%, resulting mainly from a increases in recruiting cost and professional liability expense.

Total operating expenses increased by $37.6 million, or 5.1%.

Nonoperating revenues of $35.1 million for fiscal year 2020 are comprised of $15.0 million of Federal stimulus, or provider relief funding, a $3.5 million gain on the sales of property not used in operations, $4.7 million of tax revenue received from the County of Tulare and $11.8 million in investment income on cash and investments. Investment income represents interest income and realized and unrealized gains and losses on District and Foundation investments. District investments by law may only be invested in high-grade, governmental and commercial fixed income securities and money market funds.

Nonoperating expenses represent interest on the District's short-term and long-term debt consisting of revenue and general obligation bonds and capital leases, loss on disposal of capital assets, and bond issuance expense. Total interest expense of $7.4 million increased by $200,000, or 2.8%, from 2019. Bond issuance expense increased by $172,000 in 2020.

For fiscal year 2020, capital contributions of $851,000 represent amounts received from Foundation donors to support specific capital purposes. The Foundation exists to support the needs of the District and to help build support for the District and our community.

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

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

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

The District participates in various supplemental payment programs administered by the State of California as discussed in detail in the notes to the consolidated financial statements. In fiscal years 2019 and 2018, the District recognized net patient services revenue of $12.0 million and $12.3 million related to the QAF Managed Care Medi-Cal program; $9.7 million and $10.1 million related to the AB113 IGT FFS Medi-Cal Inpatient program; and $22.7 million and $4.6 million related to the Rate Range IGT Managed Medi-Cal program, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

Budget Results

The Board of Directors approves the annual operating budget of the District. The budget remains in effect the entire year, but is updated as needed for internal management use to reflect changes in activity and approved variances. A fiscal year 2020 budget comparison and analysis is presented below.

TABLE 5

Actual vs. Budget

(in thousands)

	Years Ended June 30,			
	2020 Actual	2020 Budget	Dollar Variance	Total % Variance
Net patient services revenue	$ 614,435	$ 661,035	$ (46,600)	-7.0%
Management services revenue	32,805	32,321	484	1.5%
Premium revenue	50,903	47,558	3,345	7.0%
Other operating revenue	36,205	30,322	5,883	19.4%
Total operating revenues	734,348	771,236	(36,888)	-4.8%
Salaries and benefits	384,975	383,311	1,664	0.4%
Medical and other supplies	148,816	140,041	8,775	6.3%
Medical and other fees and services	151,487	135,988	15,499	11.4%
Maintenance, utilities, and rent	37,974	39,303	(1,329)	-3.4%
Depreciation and amortization	30,678	33,122	(2,444)	-7.4%
Other	15,537	17,049	(1,512)	-8.9%
Total operating expenses	769,467	748,814	20,653	2.8%
Operating (loss) income	(35,119)	22,422	(57,541)	-256.6%
Nonoperating revenues – net of nonoperating expenses	27,468	1,682	25,786	1533.1%
(Loss) income before contributions	$ (7,651)	$ 24,104	(31,755)	-131.7%

In comparing actual versus budgeted 2020 results, the following is noted:

The District completed its fiscal year 2020 $31.8 million, or 131.7%, below the budgeted income before contributions of $24.1 million. Operating income fell short of budget expectations but nonoperating income exceeded budget by $25.8 million due to a $3.5 million gain on the sale of property not used in operations, the receipt of $15.0 million of Federal stimulus funds, and $4.9 million of unrealized gains recognized related to the District's investment portfolio.

The District's operating income fell short of budget expectations by $57.5 million, or 256.7%. Net patient services revenue fell short of budget by $46.6 million, or 7.0%, due to lower-than-expected patient volumes as well as an unbudgeted reduction in Medi-Cal supplemental payment programs. Management services revenue, premium revenue, and other operating revenue exceeded budget expectations by $484,000, or 1.5%, $3.3 million, or 7.0%, and $5.9 million, or 19.4%, respectively. The District realized an unfavorable variance in total operating expenses of $20.7 million, or 2.8%, in fiscal year 2020. In addition to the $4.3 million of unbudgeted costs related to COVID-19, this unfavorable expense variance was mainly due to medical and other fees and services, which were $15.5 million, or 11.4%, higher than expected. The unfavorable variance in this area related to contract labor, purchased medical services for third party cost related to the capitated Medicare managed care contract, collection fees and other purchased services.

Capital Assets

At June 30, 2020, the District had $338.4 million invested in a variety of capital assets, as reflected in the following schedule (in thousands), which represents a net increase (additions less retirements and depreciation) of $2.0 million from the end of the prior year.

	June 30, 2020	June 30, 2019	Dollar Change	Total % Change
Land	$ 17,542	$ 16,137	$ 1,405	8.7%
Buildings and improvements	378,313	356,887	21,426	6.0%
Equipment	299,378	275,513	23,865	8.7%
Construction in progress	38,837	42,299	(3,462)	-8.2%
	734,070	690,836	43,234	6.3%
Less accumulated depreciation	396,060	357,681	38,378	10.7%
	338,010	333,155	4,855	1.5%
Property under capital leases – less accumulated amortization	389	3,204	(2,815)	-87.9%
Capital assets, net	$ 338,399	$ 336,359	$ 2,040	0.6%

Material additions during fiscal year 2020 included (in thousands):

Construction and equipment costs related to:		
Emergency department expansion	$	10,684
Infill of Acequia Wing fifth and sixth floors	$	2,887
Da Vinci surgical robot	$	2,441
Inpatient beds	$	2,088
Land, building and improvements for new rural health clinic	$	1,929
Inpatient pharmacy remodel	$	1,868
Various facility roof replacements	$	1,318
Anesthesia machines	$	712
Dialysis machines	$	291
Laboratory Biomerieux unit	$	257

Long-Term Debt

At June 30, 2020, the District had approximately $273.3 million in capital lease obligations and revenue and general obligation bonds outstanding as described in Notes 8 and 9 to the consolidated financial statements. The general obligation bonds represent the general obligation of the District. The District has the power and is obligated to cause annual ad valorem taxes to be levied upon all property within the District, subject to taxation by the District, and collected by the County of Tulare for payment, when due, of the principal and interest on the bonds. The bond indenture agreements contain various restrictive covenants that include, among other things, minimum debt service coverage, maintenance of minimum liquidity, restrictions on certain additional indebtedness, and requirements to maintain certain financial ratios.

2020A and 2020B Bonds – During January 2020, the District issued $6.8 million Series 2020A and $8.2 million Series 2020B of Kaweah Delta Health Care District Revenue Bonds. Both the 2020A and the 2020B revenue bonds bear interest at a rate of 2.37%. The net proceeds were used to fund capital projects and equipment. The 2020A and 2020B revenue bonds maturing on or after June 1, 2020 to May 31, 2025, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to 102% of the principal amount of the bonds. The 2020A and 2020B revenue bonds maturing on or after June 1, 2025 to May 31, 2030, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to 101% of the principal amount of the bonds. The 2020A and 2020B revenue bonds maturing on or after June 1, 2030, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium.

Economic Outlook

The District's Board of Directors and management considered many factors when setting the fiscal year 2021 budget. Of primary importance in setting the 2021 budget is the status of the California economy, the fiscal policy of the state and federal governments, the availability and affordability of labor, the general rise of health care related costs, and local and regional competition for health care services. Specific factors and assumptions incorporated in the District's fiscal year 2021 budget include:

- Inpatient utilization is projected to increase by 4.6% from 2020 levels reflecting an average daily patient census of 433. Outpatient activity expressed in equivalent inpatient days is projected to increase 14.5% from 2020.

- An 8.4% increase in gross patient services revenue due to increased patient care volume and mix of services, although no retail price increase was budgeted.
- A Medicare general acute care rate increase of approximately 3.6%, an increase of 1.4% for outpatient services, an increase of 1.0% for skilled nursing and for subacute services, an increase of 2.2% for home health services, an increase of 1.9% for rural health clinic services, an increase of 4.9% for acute rehabilitation, and a 1.2% increase for acute psychiatric services.
- No change in reimbursement anticipated for Medi-Cal fee-for-service acute medical/surgical, rehabilitation services, skilled nursing, subacute, psychiatric, home health, and outpatient fee-for-service reimbursement. Includes $15.9 million in disproportionate share payments, $3.8 million in anticipated fee-for-service intergovernmental transfer revenue and $14.6 million in provider fee intergovernmental transfer and grant revenue.
- Medi-Cal managed care reimbursement rate increases of approximately 1.8% based on scheduled rate increases included in multi-year contracts. Includes $15.1 million of Medi-Cal managed care rate range program intergovernmental transfer revenue.
- Annual scheduled rate increases for non-government managed care payers for contracts negotiated in prior years as well as expected new negotiated increases with managed care plans averaging 2.1%.

  The successful improvement of health care delivery system improvement initiatives under various care transformation programs resulting in the recognition of $7.7 million in related revenue.
- Overall expense per adjusted patient day is projected to decrease by 9.2% from the prior year.

Report of Independent Auditors

Board of Directors
Kaweah Delta Health Care District

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Kaweah Delta Health Care District, which comprise the consolidated statements of net position as of June 30, 2020 and 2019, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kaweah Delta Health Care District as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Moss Adams LLP

Stockton, California
October 29, 2020

Consolidated Financial Statements

Kaweah Delta Health Care District
Consolidated Statements of Net Position
Jun 30, 2020 and 2019 (in thousands)

	2020	2019
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,766	$ 4,220
Current portion of Board designated and trusteed assets	13,954	12,577
Accounts receivable:		
Patient accounts receivable, net	118,451	146,605
Other	16,669	13,907
Total accounts receivable	135,120	160,512
Inventories	8,479	10,479
Medicare and Medi-Cal settlements	36,726	30,759
Prepaid expenses	10,317	11,510
Total current assets	216,362	230,057
NONCURRENT CASH AND INVESTMENTS – less current portion		
Board designated assets	338,785	278,883
Bond assets held by trustee	36,092	33,569
Assets in self-insurance trust fund	3,727	4,209
	378,604	316,661
CAPITAL ASSETS		
Land	17,542	16,137
Buildings and improvements	378,313	356,887
Equipment	299,378	275,513
Construction in progress	38,837	42,299
	734,070	690,836
Less accumulated depreciation	396,060	357,681
	338,010	333,155
Property under capital leases – less accumulated amortization	389	3,204
	338,399	336,359
OTHER ASSETS		
Property not used in operations	1,686	3,724
Health-related investments	6,888	7,537
Other	10,760	9,706
	19,334	20,967
Total assets	952,699	904,044
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on defeasance of debt	3,244	3,586
Unamortized goodwill	290	345
Deferred outflows - actuarial	5,820	1,935
Total deferred outflows	9,354	5,866
Total assets and deferred outflows of resources	$ 962,053	$ 909,910

See accompanying notes.

June 30, 2020 and 2019 (in thousands)

	2020	2019
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 38,146	$ 35,319
Accrued payroll and related liabilities	63,411	59,163
Medicare accelerated payments payable	43,750	-
Long-term debt – current portion	10,647	9,360
Total current liabilities	155,954	103,842
LONG-TERM DEBT – less current portion		
Bonds payable	262,436	258,553
Capital leases	220	174
	262,656	258,727
NET PENSION LIABILITY	40,378	31,249
OTHER LONG-TERM LIABILITIES	30,626	28,647
Total liabilities	489,614	422,465
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - actuarial	-	8,206
	-	8,206
NET POSITION		
Invested in capital assets, net of related debt	104,433	105,427
Restricted:		
Expendable	18,567	18,226
Nonexpendable – minority interest	2,608	2,805
Nonexpendable – permanent endowments	9,392	9,059
Unrestricted	337,439	343,722
Total net position	472,439	479,239
Total liabilities, deferred inflows of resources, and net position	$ 962,053	$ 909,910

See accompanying notes.

Kaweah Delta Health Care District
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2020 and 2019 (in thousands)

	2020	2019
OPERATING REVENUES		
Net patient services revenue	$ 614,435	$ 638,382
Premium revenue	50,903	40,871
Other revenues		
Management services revenue	32,805	31,751
Other	36,205	40,569
Total other revenues	69,010	113,191
Total operating revenues	734,348	751,573
OPERATING EXPENSES		
Salaries and wages	310,423	289,671
Employee benefits	74,552	73,618
Total employment expenses	384,975	363,289
Medical and other supplies	148,816	141,150
Medical and other fees	107,399	104,811
Purchased services	44,088	40,781
Repairs and maintenance	25,516	25,901
Utilities	6,085	5,723
Rents and leases	6,373	6,119
Depreciation and amortization	30,678	30,851
Other	15,537	13,285
Total operating expenses	769,467	731,910
OPERATING (LOSS) INCOME	(35,119)	19,663
NONOPERATING REVENUES (EXPENSES)		
Property tax revenue	4,742	4,605
Federal stimulus funds	14,966	-
Investment income, net	11,823	10,817
Bond issuance expense	(172)	-
Interest expense	(7,411)	(7,208)
Gain on disposal of capital assets	3,520	31
Total nonoperating revenues	27,468	8,245
(LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS	(7,651)	27,908
CAPITAL CONTRIBUTIONS	851	861
Change in net position	(6,800)	28,769
NET POSITION – beginning of year	479,239	450,470
NET POSITION – end of year	$ 472,439	$ 479,239

Kaweah Delta Health Care District
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019 (in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from net patient services revenue	$ 638,327	$ 618,685
Cash received from management services and other operating revenues	116,651	104,963
Cash received from Medicare accelerated payments	43,750	-
Cash payments for salaries, wages, and related benefits	(380,727)	(349,987)
Cash payments for other operating expenses	(350,114)	(342,497)
Net cash from operating activities	67,887	31,164
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax revenue	1,412	1,361
Federal stimulus funds	14,966	-
Net cash from noncapital financing activities	16,378	1,361
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond issuance costs	(172)	-
Interest payments on bonds payable and capital leases	(9,436)	(9,872)
Principal payments on bonds payable and capital leases	(9,442)	(8,992)
Proceeds from revenue bonds	15,000	-
Contributions received for capital expenditures	851	861
Tax revenue related to general obligation bonds	3,330	3,244
Purchase of capital assets	(30,956)	(48,342)
Proceeds from disposal of capital assets	5,608	27
Net cash used for capital and related financing activities	(25,217)	(63,074)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income on investments	6,493	6,560
Purchase of investments	(78,549)	(98,806)
Net health-related investment contributions	(6)	(772)
Purchase of property not used in operations	-	1
Proceeds from sales and maturities of investments	73,519	134,216
Net cash from investing activities	1,457	41,199
NET CHANGE IN CASH AND CASH EQUIVALENTS	60,505	10,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	144,969	134,319
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 205,474	$ 144,969

See accompanying notes.

Kaweah Delta Health Care District
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019 (in thousands)

	2020	2019
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents in current assets	$ 11,766	$ 4,220
Cash and cash equivalents in noncurrent cash and investments:		
Board designated cash and investments	152,780	102,836
Bond assets held in trust	40,921	37,905
Assets in self-insurance trust fund	7	8
	$ 205,474	$ 144,969
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss) income	$ (35,119)	$ 19,663
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	30,678	30,851
Provision for bad debts	33,358	36,725
Changes in:		
Increase in accounts receivable	(7,965)	(50,872)
Increase in inventories, prepaid expenses, and other assets	(3,261)	(15,254)
Increase in accounts payable and accrued expenses, accrued payroll and related liabilities, Medicare accelerated payments payable, and other long-term liabilities	50,196	10,049
Net cash from operating activities	$ 67,887	$ 31,164
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Capital assets purchased with issuance of capital lease	$ 293	$ -
Interest capitalized in capital assets	$ 1,363	$ -

See accompanying notes.

NOTE 1 – BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

Accounting standards – Pursuant to Government Accounting Standard Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989 and State Controller's *Minimum Audit Requirement*s for California Special districts and the State Controller's office prescribed reporting guidelines.

Net patient services revenue and patient accounts receivable – Net patient services revenue is reported at the estimated net realizable amount from patients, governmental programs, health maintenance and preferred provider organizations, and insurance contracts under applicable laws, regulations, and program instructions. Net realizable amounts are generally less than the District's established rates. Final determination of certain amounts payable is subject to review by appropriate third-party representatives. Subsequent adjustments, if any, arising from such reviews are recorded in the year final settlement becomes known. Significant concentrations of net patient accounts receivable at June 30, 2020 and 2019, include Medicare, 31.16% and 29.86%, respectively, and Medi-Cal, 36.05% and 33.75%, respectively. The District provides for estimated losses on amounts receivable directly from patients based on historical bad debt experience. Past due status is based on the date the account is determined to be payable directly from the patient. When the account is deemed uncollectible in accordance with District policy, it is written off to bad debt expense. Recoveries from previously written-off accounts are recorded when received. At June 30, 2020 and 2019, the District provided allowances for losses on amounts receivable directly from patients totaling $68.6 million and $58.1 million, respectively. Amounts written off to bad debt expense included in net patient services revenue totaled approximately $33.4 million and $36.7 million for 2020 and 2019, respectively.

The District renders service to patients under contractual arrangements with the Medicare and Medi-Cal programs. Medicare payments are primarily prospective for inpatients while Medicare payments for outpatients are based on a combination of a fee-for-service schedule and prospective reimbursement. Medi-Cal inpatient payments are subject to the state's prospective payment system. Medi-Cal outpatient services are reimbursed on a fee-for-service schedule. The programs' administrative procedures preclude final determination of amounts due for services to program patients until after the cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. Medicare and Medi-Cal cost reports for 2018 and 2019, are subject to audit and possible adjustment. Net Medicare and Medi-Cal program patient services revenue amounted to approximately $396.2 million and $382.2 million in 2020 and 2019, respectively. The District recognized in the consolidated statements of revenues, expenses, and changes in net position increases of approximately $921,000 and $729,000 in 2020 and 2019, respectively, in net patient services revenue pertaining to the settlement of previous years' cost reports.

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

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

Charity care – The District provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. The District accepts all patients regardless of their ability to pay. Partial payments to which the District is entitled from public assistance programs on behalf of patients that meet the District's charity care criteria are reported as net patient services revenue. Charity care, which is excluded from recognition as receivables or revenue in the consolidated financial statements, provided in 2020 and 2019, measured on the basis of uncompensated cost, was $5.2 million and $4.2 million, respectively.

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

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

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

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

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

Capital assets – Property, plant, and equipment are reported on the basis of cost or, in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities, or extend useful lives are capitalized. The District capitalizes interest cost net of any interest earned on temporary investments of the proceeds for construction projects funded by tax-exempt borrowings. Interest expense is also capitalized for projects financed with operating funds.

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

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

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

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

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

Workers' compensation self-insurance – The District maintains a self-insurance policy against workers' compensation losses with supplemental coverage for losses in excess of $1.5 million. The Board has designated funds for the payment of workers' compensation claims. The current portion of the related liability is reported in accrued payroll and related liabilities on the consolidated balance sheet, while the long-term portion is included in other long-term liabilities. Losses from asserted and unasserted claims identified under the District's incident reporting system are accrued based on estimates that incorporate the District's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The District's accrued workers' compensation losses also include an estimate of possible losses attributable to incidents that may have occurred, but have not been identified under the incident reporting system. The District has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Estimated future payments relating to workers' compensation losses have been discounted at a 0.7% rate.

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

Compensated absences – The District's benefits-eligible employees earn vacation, short-term illness, and holiday leave, referred to as Paid Time Off ("PTO"), at varying rates based upon qualifying service hours. Employees may accumulate PTO up to a specified maximum. Accrued PTO is paid to the employee upon termination of employment or upon conversion to nonbenefits-eligible status. The estimated amount of PTO payable to employees is reported as a current liability in both 2020 and 2019. Extended Illness Bank ("EIB") time is also earned at a specific rate per qualified service hour. Employees who were vested in the District's defined benefit retirement plan as of June 30, 2011 (the effective date it was "frozen") were offered a one-time opportunity to have their accrued EIB time applied to length of service up to a maximum of one-year service credit. However, no payment is made for accrued EIB time when employment is terminated.

Medicare accelerated payments and CARES Act grants – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Management has not yet determined the full financial impact of these events. Centers for Medicare and Medicaid Services ("CMS") distributed $50 billion of the $100 billion in the form of grants to hospitals. The District received approximately $15.0 million in grants, included as federal stimulus funds in nonoperating revenues (expense) in the consolidated statements of revenues, expenses, and changes in net position, and will have to submit reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions. On September 19, 2020, the Department of Health and Human Services ("HHS") released updated information for health care providers that received Provider Relief Fund ("PRF") payments, which may impact the recognition of the payments and the available uses for the funds. Management believes that these changes will not have a material impact to the consolidated financial statements as of and for the year ended June 30, 2020.

Separately, CMS initiated an Accelerated Payment Program ("MAPP") to hospitals. The accelerated payments represent advance payments for services to be provided and were based on a hospital's historical Medicare volume. In April 2020, the District received approximately $43.8 million in MAPP funds, included in Medicare accelerated payments payable on the consolidated statements of net position. Medicare payments for services rendered will continue for the next year. On October 8, 2020, CMS released updated fact sheet relating to the repayment terms for certain Medicare accelerated payments, which may impact on the classification of these payments in the consolidated statements of financial position as of June 30, 2020. One year after receipt of MAPP funds, CMS will begin recouping the accelerated payments from billing for services rendered until they are fully repaid. Any MAPP funds not recouped after seventeen months from the start of CMS recoupment will be charged interest at 4% per annum.

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

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

These classifications are defined as follows:

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

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

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

New accounting pronouncements – In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* ("GASB No. 84"). GASB No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* ("GASB No. 95"), which extended the effective date for GASB No. 84 to reporting periods beginning July 1, 2020. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB 87"), which is effective for financial statements for periods beginning after December 15, 2019. GASB No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB No. 87 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB No. 95 extended the effective date for GASB No. 87 to reporting periods beginning July 1, 2021. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB No. 88"). Among other things, GASB No. 88 clarifies which liabilities governments should include in their note disclosures related to debt. GASB No. 88 requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. GASB 88 further defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement further requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The District adopted GASB No. 88 in the year ended June 30, 2020. The adoption did not result in a material impact to the District's consolidated financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* ("GASB No. 89"). GASB No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. GASB No. 95 extended the effective date for GASB No. 89 to reporting periods beginning July 1, 2021. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

In May 2019, the GASB also issued GASB Statement No. 91, *Conduit Debt Obligation*, ("GASB No. 91"). GASB No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB No. 95 extended the effective date for GASB No. 91 to reporting periods beginning July 1, 2022. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

NOTE 2 – NONCURRENT CASH AND INVESTMENTS

Noncurrent cash and investments required for obligations classified as current liabilities are reported as current assets. The composition of noncurrent cash and investments at June 30 were as follows (in thousands):

	2020	2019
Board designated assets:		
Cash and cash equivalents	$ 152,781	$ 102,836
U.S. Treasury obligations	66,899	69,924
Federal agency obligations	19,821	12,062
Municipal obligations	18,178	5,653
Corporate obligations	54,670	55,411
Equity securities	8,554	9,294
Mutual funds	1,328	1,441
Asset and mortgage-backed securities	19,724	25,169
Supranational Agency	2,768	2,558
Alternative investments	788	900
Interest receivable	1,034	1,160
Current portion	(7,760)	(7,525)
	$ 338,785	$ 278,883

	2020	2019
Bond assets held in trust:		
Cash and cash equivalents	$ 40,921	$ 37,905
Interest receivable	53	121
Current portion	(4,882)	(4,457)
	$ 36,092	$ 33,569

	2020	2019
Assets in self-insurance trust fund:		
Cash and cash equivalents	$ 7	$ 8
U.S. Treasury obligations	3,009	2,241
Federal agency obligations	409	665
Municipal obligations	269	355
Corporate obligations	985	1,105
Asset and mortgage-backed securities	338	402
Interest receivable	22	28
Current portion	(1,312)	(595)
	$ 3,727	$ 4,209

NOTE 3 – FAIR VALUE OF ASSETS AND LIABILITIES

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

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

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

	June 30, 2020				
Description	Level 1	Level 2	Level 3	Investments held at net asset value	Balance
Cash and cash equivalents	$ 185,017	$ -	$ -	$ -	$ 185,017
U.S. Treasury obligations	69,907	-	-	-	69,907
Federal agency obligations	-	20,230	-	-	20,230
Municipal obligations	-	18,447	-	-	18,447
Corporate obligations	-	55,655	-	-	55,655
Asset and mortgage-backed securities	-	20,062	-	-	20,062
Supranational Agency	-	2,768	-	-	2,768
Other Foundation assets	9,882	-	-	788	10,670
	$ 264,806	$ 117,162	$ -	$ 788	$ 382,756

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

NOTE 4 – BANK DEPOSITS

At June 30, 2020 and 2019, the District had bank balances totaling $20.4 million and $12.5 million, respectively, which approximate book balances. Of these balances, $7.0 million and $6.4 million were insured by the Federal Deposit Insurance Corporation at June 30, 2020 and 2019, respectively, and the remainder was collateralized. The California Government Code (the “Code”) requires financial institutions to secure the District’s deposits, in excess of insured amounts, by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District’s deposits.

NOTE 5 – INVESTMENTS

GASB Statement No. 40 requires the District to disclose its deposit and investment policies related to investments with credit risk or deposits with custodial credit risk, the credit ratings and maturities of its investments (other than U.S. government obligations or obligations guaranteed by the U.S. government), and additional disclosures related to uninsured deposits. A summary of scheduled maturities by investment type at June 30, 2020, follows (in thousands):

		Investment Maturities (in years)		
	Fair Value	Less than 1	1 - 5	More than 5
U.S. Treasury obligations	$ 69,907	$ 4	$ 69,728	$ 175
Federal agency obligations	20,230	10	20,164	56
Corporate obligations	55,655	14,662	40,966	27
Municipal obligations	18,447	3,230	15,217	-
Asset and mortgage-backed securities	20,062	92	19,970	-
Supranational Agency	2,768	-	2,768	-
Local Agency Investment Funds	87,444	87,444	-	-
CAMP	84,985	84,985	-	-
Money market funds	12,588	12,588	-	-
	372,086	$ 203,015	$ 168,813	$ 258
Equity securities	8,554			
Alternative investments	788			
Mutual funds	1,328			
	$ 382,756			

A summary of scheduled maturities by investment type at June 30, 2019, follows (in thousands):

		Investment Maturities (in years)		
	Fair Value	Less than 1	1 - 5	More than 5
U.S. Treasury obligations	$ 72,165	$ 25	$ 71,950	$ 190
Federal agency obligations	12,727	30	12,632	65
Corporate obligations	56,516	3,011	53,392	113
Municipal obligations	6,008	-	6,008	-
Asset and mortgage-backed securities	25,571	22	25,549	-
Supranational Agency	2,558	-	2,558	-
Local Agency Investment Funds	67,359	67,359	-	-
CalTRUST	62,898	62,898	-	-
CAMP	2,205	2,205	-	-
	308,007	$ 135,550	$ 172,089	$ 368
Other Foundation assets				
Equity securities	9,294			
Alternative investments	900			
Mutual funds	1,441			
	$ 319,642			

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

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Policy requires that, to be eligible for investment, corporate notes shall be rated “A,” or its equivalent, or better by a nationally-recognized rating service at the time of purchase. The Policy also limits investment in collateralized mortgage obligations to obligations rated “AA,” or its equivalent, or better. All of the District’s investments in corporate obligations and collateralized mortgage obligations met these requirements as of June 30, 2020. The Policy allows for investments in LAIF up to the maximum amount allowed by the state of California. The investment in LAIF is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty. The state of California Treasurer’s office has regulatory oversight of LAIF. The Policy includes no limitations or restrictions related to investments in United States Treasury or federal agency obligations. The Policy also allows for investment in shares of beneficial interest issued by a joint power authority (“JPA”) organized pursuant to the Code that invests in the securities and obligations authorized under the Code. The Code requires that the JPA issuing the shares shall have retained an investment adviser with appropriate size and experience as outlined in the Code. The District is a participant in two JPA programs, including the Investment Trust of California, commonly known as CalTRUST, and the California Asset Management Program, commonly known as CAMP, for the purpose of pooling local agency assets for investing. Participation in the JPA programs is open to any public agency in California. Both JPA programs are governed by a Board of Trustees, all of whom are experienced investment officers or employees of the public agency members. The Trustees are responsible for setting the overall policies and procedures for and for overall administration of the JPA. CalTRUST is measured at NAV, which is calculated daily. The CAMP pool is managed to maintain a dollar-weighted portfolio maturity of 60 days or less and seeks to maintain a constant NAV of one dollar per share.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District’s investment in a single issuer. The market value of LAIF investments represented 22.8% and 21.0% of the District’s total investment market value at June 30, 2020 and 2019, respectively. The market value of CAMP investments represented 22.2% and 19.6% at June 30, 2020 and 2019, respectively.

NOTE 6 – CAPITAL ASSETS

A summary of changes in capital assets during 2020 is as follows (in thousands):

	Beginning Balance 2019	Additions	Deletions	Transfers	Ending Balance 2020
Land	$ 16,137	$ 1,405	$ -	$ -	$ 17,542
Buildings and improvements	356,887	612	(9)	20,823	378,313
Equipment	275,513	11,657	(5,500)	17,708	299,378
Construction in progress	42,299	18,681	-	(22,143)	38,837
Property under capital leases	17,699	257	-	16,388	34,344
	708,535	32,612	(5,509)	32,776	768,414
Accumulated depreciation and amortization	372,176	30,481	(5,420)	-	397,237
	$ 336,359	$ 2,131	$ (89)	$ 32,776	$ 371,177

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

	Beginning Balance 2018	Additions	Deletions	Transfers	Ending Balance 2019
Land	$ 15,869	$ 268	$ -	$ -	$ 16,137
Buildings and improvements	343,422	6,369	-	7,096	356,887
Equipment	265,820	2,158	(399)	7,934	275,513
Construction in progress	25,196	32,133	-	(15,030)	42,299
Property under capital leases	17,699	-	-	-	17,699
	668,006	40,928	(399)	-	708,535
Accumulated depreciation and amortization	341,900	30,638	(362)	-	372,176
	$ 326,106	$ 10,290	$ (37)	$ -	$ 336,359

NOTE 7 – HEALTH-RELATED INVESTMENTS

The following table summarizes the District's health-related investments recorded on the equity method at June 30 (in thousands):

	2020	2019
Cypress Company, LLC	$ 734	$ 777
Sequoia Surgery Center, LLC	817	851
Northwest Visalia Senior Housing, LLC	3,422	3,997
Sequoia Integrated Health Plan, LLC	937	1,043
202 West Willow, LLC	930	869
Visalia Kidney Center	48	-
	$ 6,888	$ 7,537

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

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

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

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

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

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

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

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

NOTE 8 – CAPITAL LEASES

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

Future minimum payments, by year and in the aggregate, for all capital leases consist of the following at June 30, 2020 (in thousands):

Years Ending June 30,		
2021	$	177
2022		105
2023		57
2024		57
2025		16
Future minimum lease payments		412
Less amount representing interest		28
Present value of minimum lease payments		384
Less current portion		164
	$	220

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

		2020		2019
Buildings and improvements	$	-	$	403
Equipment		1,568		17,296
		1,568		17,699
Less accumulated depreciation		1,179		14,495
	$	389	$	3,204

A summary of changes in capital lease obligations during 2020 and 2019 is as follows (in thousands):

	Beginning Balance 2019	Additions	Payments	Ending Balance 2020
Capitalized lease obligations	$ 2,141	$ 293	$ 2,050	$ 384

	Beginning Balance 2018	Additions	Payments	Ending Balance 2019
Capitalized lease obligations	$ 4,923	$ -	$ 2,782	$ 2,141

NOTE 9 – BONDS PAYABLE

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

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

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

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

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

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

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

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

During January 2020, the District issued $6.8 million Series 2020A and $8.2 million Series 2020B of Kaweah Delta Health Care District Revenue Bonds. Both the 2020A and the 2020B revenue bonds bear interest at a rate of 2.37%. The net proceeds were used to fund capital projects and equipment. The 2020A and 2020B revenue bonds maturing on or after June 1, 2020 to May 31, 2025, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to 102% of the principal amount of the bonds. The 2020A and 2020B revenue bonds maturing on or after June 1, 2025 to May 31, 2030, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to 101% of the principal amount of the bonds. The 2020A and 2020B revenue bonds maturing on or after June 1, 2030, are subject to redemption at the option of the District prior to their respective stated maturities at a price equal to the principal amount of the bonds, without premium.

Principal and interest payments due on the revenue and general obligation bonds over the next five years, and in five-year increments thereafter, calculated at the interest rate in effect at June 30, 2020, are as follows (in thousands):

Years Ending June 30,	Principal	Interest
2021	$ 10,483	$ 9,575
2022	11,027	9,179
2023	11,549	8,769
2024	11,952	8,433
2025	12,382	8,084
2026 – 2030	68,949	34,580
2031 – 2035	54,233	23,755
2036 – 2040	37,785	15,891
2041 – 2045	51,345	6,486
	269,705	$ 124,752
Unamortized premium	3,214	
	272,919	
Less current portion	10,483	
	$ 262,436	

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

The District paid approximately $9.7 million and $9.9 million in interest in 2020 and 2019, respectively, on all debt, including revenue and general obligation bonds, capital leases, and notes payable. The District capitalized interest expense of approximately $1.9 million and $2.3 million in 2020 and 2019, respectively.

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

	Beginning Balance	Additions	Payments	Ending Balance
2020	$ 262,098	$ 15,000	$ 7,393	$ 269,705
2019	$ 268,307	$ -	$ 6,209	$ 262,098

NOTE 10 – SELF-INSURED CLAIMS

As discussed in Note 1, the District is self-insured for medical malpractice and general comprehensive liability, medical benefits, and workers' compensation, and discounts the medical malpractice and general comprehensive and workers' compensation liabilities using a 3.0% and 0.7% discount rate, respectively. The following is a summary of the changes in the self-insured plan liabilities for the years ended June 30 (in thousands):

	Beginning Balance	Additions	Payments	Ending Balance
2020	$ 31,403	$ 35,028	$ 32,049	$ 34,382
2019	$ 29,528	$ 33,465	$ 31,590	$ 31,403

NOTE 11 – EMPLOYEES' RETIREMENT PLANS

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

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

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

The Retirement Plan complies with the Internal Revenue Code and ERISA as they apply to governmental plans. As a government plan, the Retirement Plan is exempt from the annual minimum funding requirements of ERISA. The Retirement Plan's funding policy is to contribute an annual amount necessary to amortize any unfunded net pension liability over a 15-year period. The District contributed $11.4 million to the plan in both 2020 and 2019.

The District uses a measurement date of June 30 for each year presented. The actuarial valuation for fiscal years 2020 and 2019 is based on participant data as of June 30, 2019 and June 30, 2018, respectively. Update procedures were used to roll forward the total pension liability to the measurement date, including the mortality assumption change described below.

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

	2020	2019
Pension cost		
Service cost	$ -	$ -
Administrative expense	245	225
Interest	20,967	20,386
Expected return on assets, net of investment expenses	(18,987)	(17,659)
Recognition of deferred outflows	822	3,704
Recognition of deferred inflows	5,391	319
Total pension cost	$ 8,438	$ 6,975
Deferred outflows of resources		
Established July 1		
Difference between expected and actual experience	$ 840	$ 4,299
Net difference in expected and actual earnings	4,454	-
Change in assumptions	6,738	1,340
Deferred outflows of resources at the beginning of the year	12,032	5,639
Amount recognized in current year pension cost		
Established July 1		
Difference between expected and actual experience	956	2,887
Net difference in expected and actual earnings	1,501	-
Change in assumptions	3,755	817
Amount recognized in current year	6,212	3,704
Contributions between the measurement date and fiscal year end recognized as deferred outflow of resources	-	-
Deferred outflows of resources at end of the year	$ 5,820	$ 1,935

	2020	2019
Deferred inlows of resources		
Established July 1		
Net difference in expected and actual earnings	$ -	$ (7,887)
Deferred outflows of resources at the beginning of the year	-	(7,887)
Amount recognized in current year pension cost		
Established July 1		
Net difference in expected and actual earnings	-	(319)
Amount recognized in current year	-	(319)
Deferred inflows of resources at end of the year	$ -	$ (8,206)

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

Years Ending June 30,	
2021	$ 1,102
2022	122
2023	2,063
2024	2,533
	$ 5,820

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

	2020	2019
Active employees	697	747
Terminated vested	1,011	1,001
Retirees receiving benefits	780	763
Total participants	2,488	2,511

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

	2020	2019
Total pension liability		
Service cost	$ -	$ -
Interest	20,967	20,386
Differences between expected and actual experience	(572)	2,304
Changes in assumptions	6,216	(1,163)
Benefit payments	(14,447)	(13,275)
Net change in total pension liability	12,164	8,252
Total pension liability, beginning of the year	279,071	270,819
Total pension liability, end of the year	291,235	279,071
Plan fiduciary net position		
Employer contributions	11,400	11,400
Net investment income	6,327	20,001
Benefit payments	(14,447)	(13,275)
Administrative expenses	(245)	(225)
Net change in plan fiduciary net position	3,035	17,901
Plan fiduciary net position, beginning of the year	247,822	229,921
Plan fiduciary net position, end of the year	250,857	247,822
Net pension liability, end of the year	$ 40,378	$ 31,249
Plan fiduciary net position as percentage of total pension liability	86.14%	88.80%
Covered employee payroll	N/A	N/A
Net pension liability as percent of covered payroll	N/A	N/A

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2020:

Valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Asset valuation method	Fair Value
Actuarial assumptions (including 2% inflation)	
Discount Rate	7.50%
Mortality	RP-2014 table, projected using MP-2019
Projected Salary Increases	N/A

The mortality assumption was updated in 2019 from the most recent tables published by the Society of Actuaries.

Sensitivity of Net Pension Liability at June 30, 2019 to changes in the Discount Rate (in thousands)	
1% Decrease (6.50%)	$73,187
Current Discount Rate (7.50%)	$40,374
1% Increase (8.5%)	$12,918

The District also administers a salary deferral plan (the “Salary Plan”) available to substantially all full-time employees meeting certain service requirements. The Salary Plan qualifies under the Internal Revenue Code Section 401(k) and was established to provide supplemental retirement income for employees of the District. Under the Salary Plan, the District makes matching contributions to participants in accordance with an established schedule based upon each participant’s years of service with the District. The District made matching contributions of $8.7 million in 2020 and no matching contributions to participants in 2019. The District recognized pension expense of $3.9 million and $9.1 million related to the Salary Plan in 2020 and 2019, respectively. The liability related to the Salary Plan was $9.0 million and $13.9 million at June 30, 2020 and 2019, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become vested in the District contributions and earnings on District contributions after completion of five years of service. Nonvested contributions are forfeited upon termination of employment and such forfeitures are used to offset future District contributions. For the years ended June 30, 2020 and 2019, forfeitures reduced the District’s pension expense by $239,000 and $113,000, respectively.

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

NOTE 12 – COMMITMENTS

At June 30, 2020, the District has projects in progress to construct, improve, and equip various routine, ancillary, and support services. Major projects in progress include an expansion of the emergency department, the acquisition, improvement and equipping of an additional rural health clinic, and various improvement projects to existing facilities. Total costs expended as of June 30, 2020, related to these projects and others are approximately $38.8 million. The total estimated cost of these projects at completion is approximately $71.4 million, of which approximately $50.0 million has been expended or contractually obligated. The estimated final date of completion for the projects is October 2021. Funding for the projects is expected to include a combination of revenue bond funds, operating cash flows, community donations, and funded reserves.

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

NOTE 13 – CONTINGENCIES

Malpractice, workers' compensation, and comprehensive general liability claims have been asserted against the District by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2020, that may result in the assertion of additional claims. District management has accrued their best estimate of these contingent losses.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Over the last several years, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenue for patient services. Management believes that the District is in substantial compliance with current laws and regulations and that any potential liability arising from compliance issues have been properly reflected in the District's consolidated financial statements or are not considered to be material to the District's financial position and results of operations as of and for the year ended June 30, 2020.

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

NOTE 14 – INTERGOVERNMENTAL AND DIRECT GRANT SUPPLEMENTAL PAYMENT PROGRAMS

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

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

In the 2009-10 Program, the District, as a nondesignated public hospital (“NDPH”) in California, was not subject to the QAF assessment according to the legislation, but rather received net supplemental payments. The Program evolved in 2010 through 2014 with District hospitals participating in a variety of ways. Legislation for the Program that ran from January 1, 2014, through December 31, 2016 (SB239), allowed for direct grant funding for rural District hospitals and additional funding available in the form of Intergovernmental Transfer (“IGT”) payments offered for a match of funding. Passage of Proposition 52 in November 2016 made SB239 permanent and allowed for the creation of the HQAF V program that provides for direct grants for District hospitals as well as IGT-generated funding. The HQAF V program runs from January 1, 2017, through December 31, 2019. The HQAF VI program runs from January 1, 2019, through December 31, 2020. In fiscal years 2020 and 2019, the District recognized QAF program related net patient services revenue of $20.8 million and $12.0 million, respectively.

The District also receives AB113 IGT fee-for-service (“FFS”) Medi-Cal Inpatient payments. Legislation in March 2011 (“SB 90”) extended the QAF Program for the period from January 1, 2011, through June 30, 2011; however, the extension under SB 90 included only private hospitals and thus excluded the District related to the FFS portion of the QAF Program. As an alternative, the NDPH IGT Program was established under AB 113 in 2011 to allow NDPH facilities to access additional federal funds. Under this legislation, the District recognized net patient services revenue of a $3.7 million decrease and a $9.7 million increase related to this program for the years ended June 30, 2020 and 2019, respectively.

Additionally, the District receives “Rate Range” IGT managed Medi-Cal payments. Federal rules allow that NDPH facilities may access managed care rate range room as determined by negotiations with Medi-Cal managed care plans. As defined by law, rate range room is the difference between the amount that the State pays the managed care plans, referred to as a “lower bound” rate, and the maximum allowed, or the “upper bound” rate. This difference, or rate range, is then available through supplemental IGT payments to public entities that participate in the program in each county. The District recognized net patient services revenue of $17.8 million and $22.7 million related to this program in fiscal years 2020 and 2019, respectively.

The Public Hospital Redesign and Incentives in Medi-Cal ("PRIME") program was approved as a part of the Medi-Cal 2020 Section 1115 demonstration waiver. The program participants include both designated public hospitals and district and municipal public hospitals. PRIME supported activities encourage participants to improve the manner in which care is delivered in order to maximize health care value and also to position participants to successfully transition managed care payments to alternative payment methodologies. The District's participation in the program in 2016, its initial year of participation, and 2017 included creating the five-year implementation plan, completing related process measures, and developing PRIME project infrastructure. Participation in 2018 included submission of baseline data and participation in 2018 and 2019 included the measurement and achievement of quality improvement metrics. The State of California's share of the Medi-Cal funding for the PRIME program is furnished by IGT's from the participants. The District recognized other operating revenue of $16.2 million and $17.7 million related to the PRIME program in fiscal years 2020 and 2019, respectively.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of net position date but before the consolidated financial statements are issued. The District recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of net position, including the estimates inherent in the process of preparing the consolidated financial statements. The District's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of net position but arose after the consolidated statement of net position date and before the consolidated financial statements are issued.

In July 2022, the District received approximately $10.9 million of PRF payments for Safety Net Hospitals and for rural and other providers in July 2020 in response to the COVID-19 pandemic.

On September 19, 2020 and October 22, 2020, HHS released updated information for health care providers that received PRF payments, which may impact the recognition of the payments and the available uses for the funds. Management believes that these changes will not have a material impact to the financial statements as of and for the year ended June 30, 2020.

In October 2020, the District received approximately $40.5 million additional MAPP funds from CMS.

Supplemental Pension Information

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

	2020	2019
Active employees	697	747
Terminated vested	1,011	1,001
Retirees receiving benefits	780	763
Total participants	2,488	2,511

The following table summarizes changes in net pension liability from July 1, 2019 to June 30, 2020 (in thousands):

	2020	2019
Total pension liability		
Service cost	$ -	$ -
Interest	20,967	20,386
Differences between expected and actual experience	(572)	2,304
Changes in assumptions	6,216	(1,163)
Benefit payments	(14,447)	(13,275)
Net change in total pension liability	12,164	8,252
Total pension liability, beginning of the year	279,071	270,819
Total pension liability, end of the year	291,235	279,071
Plan fiduciary net position		
Employer contributions	11,400	11,400
Net investment income	6,327	20,001
Benefit payments	(14,447)	(13,275)
Administrative expenses	(245)	(225)
Net change in plan fiduciary net position	3,035	17,901
Plan fiduciary net position, beginning of the year	247,822	229,921
Plan fiduciary net position, end of the year	250,857	247,822
Net pension liability, end of the year	$ 40,378	$ 31,249
Plan fiduciary net position as percentage of total pension liability	86.14%	88.80%
Covered employee payroll	N/A	N/A
Net pension liability as percent of covered payroll	N/A	N/A

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

Fiscal Year Ended	Actuarially Determined Contribution	Actual Contribution	Contribution Excess (Deficiency)	Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2011	$ 11,324	$ 11,326	$ 2	NA	N/A
2012	2,233	2,235	2	NA	N/A
2013	4,093	4,095	2	N/A	N/A
2014	3,972	4,058	86	N/A	N/A
2015	2,673	3,720	1,047	N/A	N/A
2016	3,224	5,000	1,776	N/A	N/A
2017	6,879	9,000	2,121	N/A	N/A
2018	5,818	11,400	5,582	N/A	N/A
2019	4,533	11,400	6,867	N/A	N/A
2020	3,466	11,400	7,934	N/A	N/A
	$ 48,215	$ 73,634	$ 25,419		

MOSSADAMS

Communication of Internal Control Related Matters

Kaweah Delta Health Care District

June 30, 2020

MOSSADAMS

Communications of Internal Control Related Matters

To Management, the Audit and Compliance Committee, and the Board of Directors
Kaweah Delta Health Care District

In planning and performing our audit of the consolidated financial statements of Kaweah Delta Health Care District (the "District") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of management, the Audit and Compliance Committee, and the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

Stockton, California
October 29, 2020

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