SIERRA KINGS HEALTH CARE DISTRICT

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2023 AND 2022

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certified public accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sierra Kings Health Care District

Opinions

We have audited the accompanying financial statements of the business-type activities of Sierra Kings Health Care District (the District), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
October 16, 2023

SIERRA KINGS HEALTH CARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022

The following narrative provides an overview and analysis of the financial activities of the Sierra Kings Health Care District (the District) for the years ended June 30, 2023 and 2022. It is provided in order to enhance the information in the financial audit and should be reviewed together with that report.

INTRODUCTION

This discussion and analysis are intended to serve as an introduction to the District's audited financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

As per the 2021-2024 Strategic Plan, priorities for grant making were Diabetes, Obesity, and Behavioral Health. As of June 30, 2023, the District completed its second cycle of grants. This included four (4) General Grants, two (2) Mini Grants, and eight (8) Special Initiatives, for a total of fourteen (14) Grants. All grants except one general grant, successfully submitted contractually required Quarterly Reports and Invoicing that passed internal auditing processes prior to reimbursements. Overall, the District's grants performed well and demonstrated successes through a results-based accountability evaluation process. Measurable outcomes were proven through demonstrated knowledge and behavior changes. Improvements experienced by specific participants were captured when possible. Qualitative successes via anecdotal participant statements were also valuable in telling the stories of success. Given the accomplishments of the first two cycles of grant-making, the District released another Request for Proposals this year. So far, the District has awarded Four (4) Renewal Grants, one (1) General Grant, eight (8) Mini Grants and one (1) Special Initiatives and are all due to expire by June 30, 2024.

Ongoing expenses of the District consist of costs associated with general administration, legal fees, and other government reconciliation reporting. There are recurring costs for certain required insurance coverage and principal and interest payments on debt associated with leased property as reflected in the Statement of Revenues, Expenses and Changes in Net Assets. As a grant-maker, the District will continue issuing grants (General Grants, Mini Grants, Renewal Grants and Special Initiatives) via Request for Proposal (RFP) procurement processes. As with this year, the District will continue to focus its grant-making on three priorities – Obesity, Diabetes, and Behavioral Health.

FINANCIAL HIGHLIGHTS

- Operating revenues were $1.5 million, an increase of 8.1% from the prior year.
- Operating expenses were $1.8 million, an increase of 10.2% from the prior year.
- Total assets are $35.6 million, a decrease of 2.4% from the prior year.
- Total liabilities are $21.8 million, a decrease of 3.6% from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and include certain amounts based upon reliable estimates and judgments. The financial statements include Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows along with accompanying Notes to Financial Statements.

- The **Statements of Net Position** present information on the District's assets, deferred outflows, liabilities and deferred inflows, the difference between the two representing net position, or equity.
- The **Statements of Revenues, Expenses, and Changes in Net Position** present information showing total revenues versus total expenses and how the District's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., reimbursable ongoing project expenses).

- The **Statements of Cash Flows** present how changes in balance sheet accounts and income affect cash and cash equivalents. The statement is broken down into four categories: cash flows from operating activities, cash flows from investing activities, cash flows from non-capital financing activities, and cash flows from capital and related financing activities.
- The **Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of the District's operations and significant accounting policies as well as clarify unique financial information.

Analysis of Overall Financial Position and Results of Operation

Statements of Net Position

	June 30, 2023	June 30, 2022	Percentage Change
Current assets	$ 11,682,222	$ 10,334,785	13.0%
Non-current assets	23,962,875	26,170,527	-8.4%
Total assets	$ 35,645,097	$ 36,505,312	-2.4%
Current liabilities	$ 1,394,132	$ 1,331,080	4.7%
Non-current liabilities	20,366,906	21,247,798	-4.1%
Total liabilities	21,761,038	22,578,878	-3.6%
Deferred inflows of resources	4,252,344	5,356,634	-20.6%
Net position:			
Net investment (deficit) in capital assets	(406,589)	(191,669)	112.1%
Restricted net position	1,548,416	1,493,350	3.7%
Unrestricted net position	8,489,888	7,268,119	16.8%
Total Net position	9,631,715	8,569,800	12.4%
Total liabilities, deferred inflows of resources and net position	$ 35,645,097	$ 36,505,312	-2.4%

	June 30, 2022	(Restated) June 30, 2021	Percentage Change
Current assets	$ 10,334,785	$ 9,260,555	11.6%
Non-current assets	26,170,527	28,293,590	-7.5%
Total assets	$ 36,505,312	$ 37,554,145	-2.8%
Current liabilities	$ 1,331,080	$ 1,351,562	-1.5%
Non-current liabilities	21,247,798	22,098,690	-3.9%
Total liabilities	22,578,878	23,450,252	-3.7%
Deferred inflows of resources	5,356,634	6,414,782	-16.5%
Net position:			
Net investment (deficit) in capital assets	(191,669)	(1,446,560)	-86.8%
Restricted net position	1,493,350	2,994,486	-50.1%
Unrestricted net position	7,268,119	6,141,185	18.4%
Total Net position	8,569,800	7,689,111	11.5%
Total liabilities, deferred inflows of resources and net position	$ 36,505,312	$ 37,554,145	-2.8%

Assets

Total assets decreased $860,215 largely resulting from a decrease in construction in progress, an increase in accumulated depreciation, and a decrease in the property lease receivable.

The majority of the District's investments are held in the Local Agency Investment Fund (LAIF). Cash is held with Mechanics Bank and with the County of Fresno Treasury. Cash held by the County of Fresno Treasury is to be used for debt service payments.

Revenues and Expenses

Total revenues, operating and non-operating, increased 9.1% from the prior year and total expenses increased 5.1%. This resulted in an increase to net position of $1,061,915. Operating revenues consist almost entirely of district tax assessments and rent and lease revenue. District tax assessments increased by 2.7% mainly due to an increase in ad valorem taxes. Total expenses increased by 5.1% from the prior year due to an increase in general and administrative expenses.

Statements of Revenue, Expenses, and Changes in Net Position

	Fiscal Year Ended June 30, 2023	Fiscal Year Ended June 30, 2022	Percentage Change
Operating revenues:			
District taxes	$ 579,458	$ 522,171	11.0%
Rent and lease revenue	855,973	826,895	3.5%
Other revenue	23,270	735	3066.0%
Total operating revenues	1,458,701	1,349,801	8.1%
Operating expenditures:			
Depreciation expense	1,065,812	1,031,874	3.3%
General and administrative	687,320	559,198	22.9%
Total operating expenditures	1,753,132	1,591,072	10.2%
Operating income	(294,431)	(241,271)	22.0%
Non-operating revenues (expenses):			
District taxes-restricted	1,781,417	1,776,088	0.3%
Interest expense	(938,433)	(969,333)	-3.2%
Gain on property lease	-	1,139	-100.0%
Other revenues	513,362	314,066	63.5%
Total non-operating revenues (expenses)	1,356,346	1,121,960	20.9%
Change in net position	1,061,915	880,689	20.6%
Net position at beginning of year	8,569,800	7,689,111	11.5%
Net position at end of year	$ 9,631,715	$ 8,569,800	12.4%

Statements of Revenue, Expenses, and Changes in Net Position (continued)

	Fiscal Year Ended June 30, 2022	(Restated) Fiscal Year Ended June 30, 2021	Percentage Change
Operating revenues:			
District taxes	$ 522,171	$ 498,449	4.8%
Rent and lease revenue	826,895	790,608	4.6%
Other revenue	735	405	81.5%
Total operating revenues	1,349,801	1,289,462	4.7%
Operating expenditures:			
Depreciation expense	1,031,874	1,001,309	3.1%
General and administrative	559,198	474,692	17.8%
Total operating expenditures	1,591,072	1,476,001	7.8%
Operating income	(241,271)	(186,539)	29.3%
Non-operating revenues (expenses):			
District taxes-restricted	1,776,088	1,746,357	1.7%
Interest expense	(969,333)	(998,451)	-2.9%
Gain on property lease	1,139	84,468	-98.7%
Other revenues	314,066	324,799	-3.3%
Total non-operating revenues (expenses)	1,121,960	1,157,173	-3.0%
Change in net position	880,689	970,634	-9.3%
Net position at beginning of year	7,689,111	6,718,477	14.4%
Net position at end of year	$ 8,569,800	$ 7,689,111	11.5%

General and Administrative Expenses

Total general and administrative expenses increased 22.9% from the prior year. This increase is primarily due to an increase in salaries, taxes, and benefits as this was the first year with three employees. Additionally, there was an increase in mini grant awards. Total general and administrative expenses represent 25.5% of the total expenses incurred by the District during the fiscal year ended June 30, 2023.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: The District's investment in capital assets as of June 30, 2023, is $20.8 million (net of accumulated depreciation), a decrease of $1.1 million from June 30, 2022. This investment in capital assets includes land, construction-in-progress, parking lots and land improvements, buildings and improvements, and equipment.

Major capital asset additions this year include the following:

Pharmacy Relocation	$682,244

Capital Assets

	Fiscal Year Ended June 30, 2023	Fiscal Year Ended June 30, 2022	Percentage Change
Land	$ 576,215	$ 576,215	0.0%
Construction-in-progress	-	682,245	-100.0%
Parking lot and land improvements	1,300,131	1,300,131	0.0%
Buildings and improvements	36,052,105	35,369,861	1.9%
Equipment	1,090,736	1,090,736	0.0%
Total capital assets	$ 39,019,187	$ 39,019,188	0.0%

	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	Percentage Change
Land	$ 576,215	$ 576,215	0.0%
Construction-in-progress	682,245	274,434	148.6%
Parking lot and land improvements	1,300,131	1,300,131	0.0%
Buildings and improvements	35,369,861	34,422,389	2.8%
Equipment	1,090,736	980,146	11.3%
Total capital assets	$ 39,019,188	$ 37,553,315	3.9%

Long-Term Debt: The District's current and non-current portions of long-term debt as of June 30, 2023, was $21.2 million.

Long-Term Debt

	Fiscal Year Ended June 30, 2023	Fiscal Year Ended June 30, 2022	Percentage Change
2015 GO Refunding Bond	$ 20,050,000	$ 20,825,000	-3.7%
Bond Premiums	1,197,798	1,273,690	-6.0%
Total long-term debt	$ 21,247,798	$ 22,098,690	-3.9%

	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	Percentage Change
2015 GO Refunding Bond	$ 20,825,000	$ 21,570,000	-3.5%
Bond Premiums	1,273,690	1,349,582	-5.6%
Total long-term debt	$ 22,098,690	$ 22,919,582	-3.6%

The District completed a debt refunding on the general obligation bonds during the year ended June 30, 2016 to take advantage of current interest rates. The refunding bonds are repayable over 24 years.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

FY2024– Profit and Loss

This budget shows a gain in net position of $822,027 with $1,242,648 deriving from non- operating revenues. The Net Operating Income without depreciation is $637,553 and with depreciation it is ($420,621)

Revenue

- AH Lease – Increased by the estimated CPI adjustment of 3.5% starting in January 2024 due to the increase in inflation over the last few years.

Expenses

- Expenses allowed for an increase in staff wages and benefits of 9%. Professional and legal fees are budgeted to increase 76% to allow for SB1953 and sale of the hospital property consulting. Grant funding is budgeted to increase 51% over actual spending in FY23. Our expenses, outside of depreciation, are budgeted to increase 36% in fiscal year 2024 with 84% of the increase stemming from grant activity and professional fees.

FY2024– Cash Flow

The District's cash flow shows an increase in the LAIF account of $973,506 bringing the estimated balance to $9,823,506.

Non-Operating Income and Expense

LAIF interest income is budgeted to increase 51% and accounts for most of the net changes in non-operating income and expenses.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This Financial Report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Teresa Jacques, CFO, Sierra Kings Health Care District, PO Box 1350 Reedley, California 93654.

SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44,455	$ 162,307
Cash restricted for use in debt service	1,548,416	1,493,350
Investments	8,822,609	7,395,474
Property taxes receivable	84,330	271,956
Property lease receivable, current	1,131,230	1,003,833
Prepaid expenses and deposits	51,182	7,865
Total current assets	11,682,222	10,334,785
Property lease receivable, long term	3,121,666	4,263,506
Capital assets, not being depreciated	576,215	1,258,460
Capital assets, net of accumulated depreciation	20,264,994	20,648,561
Total assets	$ 35,645,097	$ 36,505,312
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 72,889	$ 32,788
Accrued payroll and related expenses	30,414	24,546
Accrued interest	389,937	402,854
Current maturities of debt borrowings	880,892	850,892
Deferred revenue	20,000	20,000
Total current liabilities	1,394,132	1,331,080
Debt borrowings	20,366,906	21,247,798
Total liabilities	21,761,038	22,578,878
Deferred Inflows of Resources:		
Deferred inflow - property lease income	4,252,344	5,356,634
Net position:		
Net investment (deficit) in capital assets	(406,589)	(191,669)
Restricted net position	1,548,416	1,493,350
Unrestricted net position	8,489,888	7,268,119
Total net position	9,631,715	8,569,800
Total liabilities, deferred inflows of resources and net position	$ 35,645,097	$ 36,505,312

The accompanying notes are an integral part of the financial statements.

SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSTION
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Operating revenues:		
District taxes	$ 579,458	$ 522,171
Rent and lease revenue	855,973	826,895
Other revenue	23,270	735
Total operating revenues	1,458,701	1,349,801
Operating expenses:		
Depreciation expense	1,065,812	1,031,874
Salaries, taxes, and benefits	332,098	260,146
Professional fees	48,451	80,580
Insurance	15,056	13,526
Lease expenses	30,264	26,930
Other expenses	261,451	178,016
Total operating expenses	1,753,132	1,591,072
Operating income (loss)	(294,431)	(241,271)
Non-operating revenues (expenses)		
District taxes - restricted	1,781,417	1,776,088
Interest income	437,470	258,315
Interest expense	(938,433)	(969,333)
Investment earnings (loss) - restricted	-	(20,141)
Bond capital accretion and premium amortization	75,892	75,892
Gain on property lease	-	1,139
Total non-operating revenues (expenses)	1,356,346	1,121,960
Change in net position	1,061,915	880,689
Net position at beginning of year	8,569,800	7,689,111
Net position at end of year	$ 9,631,715	$ 8,569,800

The accompanying notes are an integral part of the financial statements.

SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Cash received from operations	$ 2,660,770	$ 2,142,298
Cash payments to suppliers and contractors	(1,788,957)	(1,634,491)
Net cash provided by operating activities	871,813	507,807
Cash flows from noncapital financing activities:		
District taxes received - restricted	1,781,417	1,776,088
Net cash provided by noncapital financing activities	1,781,417	1,776,088
Cash flows from capital and related financing activities:		
Principal payments on debt borrowings	(775,000)	(745,000)
Interest payments on debt borrowings	(951,350)	(981,750)
Net cash used by capital and related financing activities	(1,726,350)	(1,726,750)
Cash flows from investing activities:		
Purchases of capital assets	-	(1,465,872)
Net (purchases) sales of investments	(1,427,136)	(942,118)
Gain on property lease	-	1,139.00
Loss on investments	-	(20,141)
Interest received	437,470	258,315
Net (purchase) sales of restricted investments	-	1,550,473
Net cash provided by investing activities	(989,666)	(618,204)
Net change in cash and cash equivalents	(62,786)	(61,059)
Cash and cash equivalents at beginning of year	1,655,657	1,716,716
Cash and cash equivalents at end of year	$ 1,592,871	$ 1,655,657
Reconciliation of cash balances:		
Cash and cash equivalents	$ 44,455	$ 162,307
Cash restricted for use in debt service	1,548,416	1,493,350
Total cash and cash equivalents at end of year	$ 1,592,871	$ 1,655,657

The accompanying notes are an integral part of the financial statements.

SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (294,431)	$ (241,271)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	1,065,813	1,031,874
Changes in assets and liabilities:		
(Increase) decrease in:		
Property taxes receivable	187,626	(268,329)
Property lease receivable	1,014,443	1,060,826
Prepaid expenses and deposits	(43,317)	20,920
Increase (decrease) in:		
Accounts payable	40,101	(57,865)
Accrued payroll and related expenses	5,868	(200)
Deferred inflow-property lease	(1,104,290)	(1,058,148)
Deferred revenue	-	20,000
Total adjustments	1,166,244	749,078
Net cash provided by operating activities	$ 871,813	$ 507,807

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During the years ended June 30, 2023 and 2022, completed projects in the amount of $682,244 and $1,058,062, respectively, were capitalized from the construction in process account into a capital asset account.

The accompanying notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Sierra Kings Health Care District (the District), is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The governing body is a five-member Board of Directors, elected from within the District for specified terms of office. The District is a political subdivision of the State of California and is not subject to federal or state income taxes.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organization*, published by the American Institute of Certified Public Accountants. The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses.

All activities of the District are accounted for within proprietary (enterprise) funds. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through users charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or operating income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation.

The District presents comparative financial statements in the accompanying financial statements to improve financial reporting of the District. All activities of the District are reported under one major proprietary (enterprise) fund.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Cash and Cash Equivalents: For the purposes of the Statements of Cash Flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Exceptions are for those investments which are intended to be continuously invested.

Investments: Investments in debt securities are reported at market value and are restricted for use in debt service agreements. The investment in LAIF is reported at net asset value and is unrestricted. Interest, dividends, and both unrealized and realized gains and losses on investments are included as income in non-operating revenues when earned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets: Restricted assets include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, other specific purposes, and amounts held for use in debt service agreements. Restricted assets consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

Fair Value of Financial Instruments: Financial instruments include cash and cash equivalents, property taxes and property lease receivable, prepaid expenses and deposits, capital assets, accounts payable and other accrued expenses, deferred revenue, and debt borrowings, none of which are held for trading purposes. The fair values of all financial instruments do not differ materially from the aggregate carrying values of the financial instruments recorded in the accompanying Statements of Net Position.

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

Property Lease Receivable and Deferred Inflow of Resources: Pursuant to GASB Statement No. 87, *Leases*, the District recognizes a property lease receivable and deferred inflow of resources. The objective of the Statement is to increase the usefulness of governments' financial statements by requiring 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. The District reports a property lease receivable and a deferred inflow of resources in the Statements of Net Position.

Capital Assets: Capital assets are recorded at cost. Contributed capital assets are reported at their estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life. Useful life of an asset is determined using the most current version of the American Hospital Association (AHA) "Estimated Useful Life of Depreciable Hospital Assets" handbook.

Repairs and maintenance are charged to expense as incurred. Costs of an asset in excess of $2,500, which are considered replacements or improvements, are capitalized.

Gains and losses on disposition of capital assets are reported and recognized in the year of disposition.

Net Position: The proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment (deficit) in capital assets, restricted and unrestricted. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

- Net Investment (Deficit) in Capital Assets - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces the balance in this category.
- Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the District not restricted for any project or other purpose.

Operating Revenues and Expenses: The Statements of Revenues, Expenses, and Changes in Net Position distinguishes between operating and non-operating revenues and expenses. Operating revenues result mainly from rent and lease revenues. Operating expenses are all expenses incurred to provide services. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

District Tax Revenues: Property taxes are levied by Fresno County on the District's behalf and are utilized to support operations and meet required debt service agreements. The amount of property tax received is dependent upon the assessed real property valuations as determined by the Fresno County Assessor. Property taxes are due in two equal installments on November 1st and February 1st each year and are delinquent if not paid by December 10th and April 10th , respectively. The District received approximately 63% and 67% of its financial support from property taxes for the years ended June 30, 2023 and 2022, respectively.

Governmental Accounting Standards Update: During the year ended June 30, 2023, the District implemented the following standards:

GASB Statement No. 91 – *Conduit Debt Obligations.* The requirements of this statement are effective for reporting periods beginning after December 15, 2020. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after December 15, 2021.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. Subsequent to issuance, GASB Statement No. 95 postponed the certain requirements of this statement to reporting periods beginning after June 15, 2022.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements.* The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 99 – *Omnibus 2022.* The requirements related to leases, PPPs, and SBITAs of this statement are effective for reporting periods beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for reporting periods begging after June 15, 2023.

GASB Statement No. 100 – *Accounting Changes and Error Corrections* - an amendment of GASB statement No. 62. The requirements of this statement are effective for reporting periods beginning after June 15, 2023.

GASB Statement No. 101 – *Compensated Absences.* The requirements of this statement are effective for reporting periods beginning after June 15, 2023.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through October 16, 2023, which is the date the financial statements were available to be issued.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, 2023 and 2022, are classified in the accompanying financial statements as follows:

	2023	2022
Cash and cash equivalents	$ 44,455	$ 162,307
Cash restricted for use in debt service	1,548,416	1,493,350
Investments	8,822,609	7,395,474
Total cash, cash equivalents and investments	$ 10,415,480	$ 9,051,131

Cash, cash equivalents and investments consisted of the following as of June 30, 2023 and 2022:

	2023	2022
Deposits with financial institutions	$ 44,455	$ 162,307
Funds held in County Treasury	1,548,416	1,493,350
Investment in Local Agency Investment Funds	8,822,609	7,395,474
Total cash, cash equivalents and investments	$ 10,415,480	$ 9,051,131

Investment Policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – *Financial Affairs.* The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Investment Policy (continued):
During the years ended June 30, 2023 and 2022, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations: CA and Others	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper: Non-pooled Funds	270 days	25%	10%
Commercial Paper: Pooled Funds	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30%	None
Placement Service Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-through Securities	5 years	20%	None
Asset Backed Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	None

The District complied with all other provisions of California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee and cash equivalents) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

June 30, 2023		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 60 Months	More than 60 Months
Funds Held in County Treasury	$ 1,548,416	$ 1,548,416	$ -	$ -
Local Agency Investment Funds	8,822,609	8,822,609	-	-
Total investments	$ 10,371,025	$ 10,371,025	$ -	$ -

June 30, 2022		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 60 Months	More than 60 Months
Funds Held in County Treasury	$ 1,493,350	$ 1,493,350	$ -	$ -
Local Agency Investment Funds	7,395,474	7,395,474	-	-
Total investments	$ 8,888,824	$ 8,888,824	$ -	$ -

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment and cash equivalent type.

			June 30, 2023			
Investment Type	Total	Minimum Legal Rating	AAA/Aaa	AA/Aa	A	Unrated
Funds Held in County Treasury	$ 1,548,416	Unrated	$ -	$ -	$ -	$ 1,548,416
Local Agency Investment Funds	8,822,609	Unrated	-	-	-	8,822,609
Total investments	$ 10,371,025		$ -	$ -	$ -	$ 10,371,025

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

			June 30, 2022			
Investment Type	Total	Minimum Legal Rating	AAA/Aaa	AA/Aa	A	Unrated
Funds Held in County Treasury	$ 1,493,350	Unrated	$ -	$ -	$ -	$ 1,493,350
Local Agency Investment Funds	7,395,474	Unrated	-	-	-	7,395,474
Total investments	$ 8,888,824		$ -	$ -	$ -	$ 8,888,824

Concentration of Credit Risk: The investment policy of the District does not limit the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government Code*. Investments in any one issuer that represent five percent or more of the total investments are as follows:

	June 30, 2023		
Issuer	Investment Type	Reported Total	Percentage of Total Investments
Fresno County Investment Pool	Investment Pool	$ 1,548,416	14.93%
Local Agency Investment Funds	Investment Pool	$ 8,822,609	85.07%

	June 30, 2022		
Issuer	Investment Type	Reported Total	Percentage of Total Investments
Fresno County Investment Pool	Investment Pool	$ 1,493,350	16.80%
Local Agency Investment Funds	Investment Pool	$ 7,395,474	83.20%

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2023 and 2022, the carrying amount of the District's deposits was $1,592,871 and $1,655,657, respectively, and the balance in financial institutions was $125,559 and $174,250, respectively. Of the balances in financial institutions, $250,000 was insured by the Federal Deposit Insurance Corporation.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Custodial Credit Risk (continued): At June 30, 2023 and 2022, as required by State law (Government Code Section 53630), the amount collateralized by the pledging financial institution was $0 for 2023 and $0 for 2022, with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

Investment in LAIF: As of June 30, 2023 and 2022, the District's investment in LAIF was $8,822,609 and $7,395,474 respectively. The investment in LAF is reported at its net asset value, which approximates fair value. LAIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA cash and investments are recorded at cost which approximates fair value. The District's deposits with LAIF are available for withdrawal generally on demand.

Foreign Currency Risk: The risk of adverse effects on the fair value of an investment from changes in exchange rates involving currencies outside the United States. The District's investment policy does not allow for investments in foreign currencies.

NOTE 3 – FAIR VALUE MEASUREMENTS

Effective July 1, 2016, the District implemented GASB 72. GASB 72 defines fair value 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 (an exit price). The District utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

GASB 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB No. 72 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly**.**
- Level 3 inputs are unobservable inputs that reflect the District's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are as follows:

- LAIF – uses the fair value of the pool's share price multiplied by the number of shares held. This pool can include a variety of investments such as U.S. government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, and other investments. The fair values of the securities are generally based on quoted market prices.
- Certificates of deposit – uses a market approach based on institutional note quotes. Evaluations are based on various market and industry inputs.
- Investment in County Treasury – the fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

The following tables identify the level within the fair value hierarchy that the District's financial assets were accounted for on a recurring basis as of June 30, 2023 and 2022. As required by GASB 72, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The District's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and their placement within the fair value hierarchy levels.

June 30, 2023	Fair Value Measurements on a Recurring Basis			
Investment Type	Total	Level 1	Level 2	Level 3
Funds held in County Treasury	$ 1,548,416	$ 1,548,416	$ -	$ -
	1,548,416	$ 1,548,416	$ -	$ -
Investments not subject to fair value hierarchy:				
Local Agency Investment Funds	8,822,609			
Total investments	$ 10,371,025			

June 30, 2022	Fair Value Measurements on a Recurring Basis			
Investment Type	Total	Level 1	Level 2	Level 3
Funds held in County Treasury	$ 1,493,350	$ 1,493,350	$ -	$ -
	1,493,350	$ 1,493,350	$ -	$ -
Investments not subject to fair value hierarchy:				
Local Agency Investment Funds	7,395,474			
Total investments	$ 8,888,824			

NOTE 4 – CAPITAL ASSETS

Capital assets at June 30, 2023 and 2022 were comprised of the following:

	Balances June 30, 2022	Additions and Completions	Transfers, Sales and Adjustments	Balances June 30, 2023
Capital assets not being depreciated:				
Land	$ 576,215	$ -	$ -	$ 576,215
Construction-in-progress	682,245	-	(682,245)	-
Total capital assets not being depreciated	1,258,460	-	(682,245)	576,215
Capital assets being depreciated:				
Parking lot and land improvements	1,300,131	-	-	1,300,131
Buildings and improvements	35,369,861	682,244	-	36,052,105
Equipment	1,090,736	-	-	1,090,736
Total capital assets being depreciated	37,760,728	682,244	-	38,442,972
Less accumulated depreciation:				
Parking lot and land improvements	(1,000,193)	(23,709)	-	(1,023,902)
Building and improvements	(15,500,935)	(999,201)	-	(16,500,136)
Equipment	(611,038)	(42,902)	-	(653,940)
Total accumulated depreciation	(17,112,166)	(1,065,812)	-	(18,177,978)
Total capital assets being depreciated, net	20,648,562	(383,568)	-	20,264,994
Total capital assets, net	$ 21,907,022	$ (383,568)	$ (682,245)	$ 20,841,209

	Balances June 30, 2021	Additions and Completions	Transfers, Sales and Adjustments	Balances June 30, 2022
Capital assets not being depreciated:				
Land	$ 576,215	$ -	$ -	$ 576,215
Construction-in-progress	274,434	1,465,873	(1,058,062)	682,245
Total capital assets not being depreciated	850,649	1,465,873	(1,058,062)	1,258,460
Capital assets being depreciated:				
Parking lot and land improvements	1,300,131	-	-	1,300,131
Buildings and improvements	34,422,389	-	947,472	35,369,861
Equipment	980,146	-	110,590	1,090,736
Total capital assets being depreciated	36,702,666	-	1,058,062	37,760,728
Less accumulated depreciation:				
Parking lot and land improvements	(967,936)	(32,258)	-	(1,000,194)
Building and improvements	(14,538,788)	(962,147)	-	(15,500,935)
Equipment	(573,569)	(37,469)	-	(611,038)
Total accumulated depreciation	(16,080,293)	(1,031,874)	-	(17,112,167)
Total capital assets being depreciated, net	20,622,373	(1,031,874)	1,058,062	20,648,561
Total capital assets, net	$ 21,473,022	$ 433,999	$ -	$ 21,907,021

Depreciation expense for the years ending June 30, 2023 and 2022 amounted to $1,065,812 and $1,031,874, respectively.

NOTE 5 – DEBT BORROWINGS

	2023	2022
Sierra Kings Health Care District General Obligation Refunding Bonds, Series 2015, due August 1, 2039, in the original amount of $24,705,000. Annual installments of principal and sinking fund payments from $415,000 to $1,675,000 beginning August 1, 2016 and continuing until the note matures on August 1, 2039. Semi-annual interest payments are due beginning February 1, 2016 and continuing until the note matures on August 1, 2039. Interest rates range from 3.00% to 5.00% per annum. There shall be levied by the County on all taxable property in the District a continuing direct and *ad valorem* tax annually during the period the Series 2015 Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Series 2015 Bonds when due. In the event there is a shortfall in *ad valorem* taxes to pay the principal of and interest on the Series 2015 Bonds, the District is required by Section 32127 of the Local Health Care District Law to use monies in its maintenance and operation fund to make up any shortfall. The Series 2015 Bonds maturing on and after August 1, 2028, are subject to redemption prior to their respective stated maturities, at the option of the District, in whole or in part on any date on or after August 1, 2025, at redemption prices equal to the principal amount of Series 2015 Bonds redeemed, together with accrued interest to the date fixed for redemption, without premium.	$ 20,050,000	$ 20,825,000
Bond premiums, net of accumulated accretion	1,197,798	1,273,690
	21,247,798	22,098,690
Less current portion	880,892	850,892
	$ 20,366,906	$ 21,247,798

Debt Refunding: The Sierra Kings Health Care District 2015 General Obligation Refunding Bonds were issued on December 1, 2015 by the District for the purpose of refunding the District's Election of 2002 General Obligation Bonds (Current Interest Bonds), General Obligation Bonds, Election of 2006, Series 2007, and General Obligation Bonds, Election of 2006, Series 2009, and paying the costs of issuance of the Series 2015 Bonds. The Series 2015 Bonds represent general obligations of the District payable from certain *ad valorem* taxes levied and collected by the County of Fresno.

NOTE 5 – DEBT BORROWINGS (continued)

The minimum future principal and interest payments are summarized by year below:

	Principal	Estimated Interest Payments	Estimated Total Debt Service
Years ending June 30:			
2024	$ 880,892	$ 919,750	$ 1,800,642
2025	910,892	886,950	1,797,842
2026	945,892	857,200	1,803,092
2027	970,892	821,775	1,792,667
2028	1,015,892	775,900	1,791,792
2029-2033	5,827,975	3,107,125	8,935,100
2034-2038	7,312,035	1,561,375	8,873,410
2039-2040	3,383,328	166,200	3,549,528
	$ 21,247,798	$ 9,096,275	$ 30,344,073

Interest expense relating to the above debt borrowings was $938,433 and $969,333 for the years ended June 30, 2023 and 2022, respectively.

NOTE 6 – SHORT-TERM LEASE

During the year ended June 30, 2023, the District renewed its one-year lease which expired February 28, 2023, to rent office space including a copy machine. The lease was renewed for an additional year ending February 28, 2024. Lease payments are due monthly in the amount of $2,500 and $90 for office space and the copy machine, respectively. Lease expense under the operating lease was $31,080 and $26,580, for the years ended June 30, 2023 and 2022, respectively.

The future minimum lease payments under the short-term lease agreement is as follows:

	Amount
Year ending June 30:	
2024	$ 20,720
	$ 20,720

NOTE 7 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2023 and 2022, the District had recorded $0 and $682,245, respectively, as construction-in-progress representing cost capitalized for various remodeling and expansion projects. Estimated cost to complete all projects as of June 30, 2023 are approximately $0. As of June 30, 2021, the District will no longer make contributions to the projects. Adventist Health will provide the funds to complete the projects.

The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consulting with legal counsel, management estimates that matters existing as of June 30, 2023 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

NOTE 8 – EMPLOYEE BENEFIT PLAN

The District sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code, covering substantially all employees. Employees become a participant in the Plan and are eligible to make elective deferrals and receive matching contributions upon completion of 1,000 service hours. The District will make matching contributions equal to up to 6% of the employee's annual base salary. The Plan was established on January 1, 2020. Employer contributions for the years ended June 30, 2023 and 2022 were $9,632 and $7,382, respectively.

NOTE 9 – LEASE RECEIVABLE

In October 2011, the District and Adventist Health entered into definitive agreements whereby Adventist Health will lease the operations of the hospital from the District for 15 years at an annual base rental of $800,000. The lease contains provisions for extension of its term for another 5-year period. The annual rental amount escalation is based on a defined consumer price index.

In August 1994, the District entered into a ground lease agreement whereby the Lessee will lease land to construct a building and make improvements to the premises. On expiration or sooner termination of the lease, any and all buildings and improvements placed on the premises shall become property of the District. The term of the lease is for 50 years at a minimum monthly base rental of $250. There is a minimum monthly rental amount escalation every five years, which is based on a defined consumer price index. In December 1994, the Lessee entered into an Assignment of Lease to assign to the Assignee all of its right, title and interest of the lease.

In June 1994, the District entered into a ground lease agreement whereby the Lessee will lease land to construct a building and make improvements to the premises. On expiration or sooner termination of the lease, any and all buildings and improvements placed on the premises shall become property of the District. The term of the lease is for 50 years at a minimum monthly base rental of $305. There is a minimum monthly rental amount escalation every five years, which is based on a defined consumer price index.

Lease revenue for the years ending June 30, 2023 and June 30, 2022 were $855,973 and $826,895, respectively. Interest income on the leases for the years ending June 30, 2023 and June 30, 2022 were $248,317 and $231,175, respectively.

Future minimum lease and interest payments to be received are as follows:

Year ending June 30,	Principal Payments	Interest Payments	Total
2024	$ 972,159	$ 159,071	$ 1,131,230
2025	1,078,054	64,897	1,142,951
2026	1,127,649	35,223	1,162,872
2027	559,615	11,900	571,515
2028	4,549	8,579	13,128
2029 & thereafter	174,338	56,862	231,200
Total	$ 3,916,364	$ 336,532	$ 4,252,896

certified public accountants

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

To the Board of Directors
Sierra Kings Health Care District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Sierra Kings Health Care District (the District) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 16, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audits 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.

Report on Compliance and Other Matters

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

Purpose of this Report

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

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
October 16, 2023