Audited Combined Financial Statements

LOMPOC
VALLEY MEDICAL CENTER

June 30, 2023 and 2022

Audited Combined Financial Statements

LOMPOC VALLEY MEDICAL CENTER

June 30, 2023

Management's Discussion and Analysis

LOMPOC VALLEY MEDICAL CENTER

June 30, 2023

Management of the Lompoc Valley Medical Center (the District) has prepared this annual discussion and analysis in order to provide an overview of performance for the fiscal year ended June 30, 2023 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments.* The intent of this document is to provide additional information on the District's historical financial performance as a whole and a prospective look at revenue growth, operating expenses and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2023 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets and deferred outflows of resources decreased by $908,621 over the prior fiscal year. Total cash and cash equivalents decreased by $7,738,037 (see the Statements of Cash Flows for changes). Net patient accounts receivable (A/R) increased by $1,564,427. Net days in outstanding patient accounts receivable were 34.22 compared to 31.5 in the prior year. The increase in A/R days was primarily associated volume increases during the fiscal year 2023. Other receivables increased by $6,612,209 due to increases in supplemental funding, GASB 87 lease changes, and the timing of payments.

- Current assets decreased by $313,650 and current liabilities increased by $1,470,290 when compared to the prior fiscal year. The current ratios for current and prior years were 3.28 and 3.53, respectively.

- Net operating revenues increased by $7,401,299 and operating expenses also increased by $8,941,131 both due mainly to increased volumes.

- There was an operating gain of $1,740,034 compared to an operating gain of $3,276,866 in the prior year.

- Non-operating revenues (expenses) decreased by $1,364,686, related mainly to about $2.1 million less in grants and contributions.

- The increase in net position was $6,020,513 million (before the CenCal settlement) compared to an increase of $8,922,031in the prior year.

- A settlement of $5,000,000 was reached in August, 2023 and is shown as a separate line item.

Cash and Investments

At fiscal year ended June 30, 2023, operating and board designated cash and investments totaled $20,506,135 compared to $28,244,172 in fiscal year 2022. Days of cash on hand decreased to 62.65 compared to 88.54 in the prior year. The District maintains sufficient cash and cash equivalents to pay all short-term liabilities.

Current Liabilities and Debt Borrowings

As previously noted, current liabilities increased by $1,470,290. Current maturities of debt borrowings decreased by $593,378 as scheduled payments were made, accounts payable decreased by $1,121,313, accrued payroll and related expenses decreased by $742,664 due mainly to timing of payroll transactions, and estimated third party payor settlements increased by $3,927,645 due mainly to the $5,000,000 CenCal settlement agreement which caused the settlement loss in the same amount.

Capital Assets, Other Assets and Deferred Outflows of Resources

Capital assets decreased by $209,630 due to a net $6,629,682 invested in new assets and offset by $6,839,312 in depreciation expense. The $6.6 million of new assets was balanced between the purchase of a building in Lompoc Village for $3.4 million, major moveable equipment and various new projects involving the remodeling of various District facilities. Other assets decreased by $679,857 due mainly to the sale of donated property. Deferred outflows of resources decreased by $69,671 due the continued amortization of bond issue costs.

Volumes

A summary of volume comparisons included:

- Acute patient days were 8,981 compared to 9,323 in the prior year.
- Patient/resident days in the District's skilled nursing facility were 32,490 compared to 29,190 in the prior year. The average daily census for the two periods was 89 in 2023 and 80 in 2022.
- Surgery cases for the fiscal year 2023 were 1,878 compared to 1,822 in the prior year.
- Emergency department visits were 23,917 in 2023 compared to 21,712 in 2022.
- Outpatient visits were 70,632 in 2023 compared to 67,532 in 2022.
- Clinic visits were 97,272 in 2023 compared to 92,159 in the prior year.

Programs

Last year the District began participation in the "Directed Payments" program through the Department of Health Care Services (DHCS) in the State of California. The payments will be based on actual utilization of contracted services. The State will evaluate the extent to which enhanced payments are achieving the goals intended. The goal of the program is to improve preventative care in children, maternity care, and birth equity through increasing access to care.

The District also continued to offer a vaccination clinic to the community, continuing a service which began in December 2020 during the COVID-19 pandemic.

Gross Patient Charges

The District charges all patients equally based on an established pricing structure for the services rendered. Generally, charges are increased on an annual basis. Total gross charges increased $51,428,389 over prior year. Specific growth by major payor included Medicare by $25,112,006 and Medi-Cal by $13,880,874 while commercial and self pay increased by $12,435,509. These changes in gross charges are a composite of new programs, volume changes and price changes.

Deductions From Revenue

Deductions from revenue are comprised of contractual allowances, provision for doubtful accounts and charity care. Contractual allowances are computed based on the difference between gross charges and the contractually agreed upon methods and rates of reimbursement with government-based programs such as Medicare and Medi-Cal and other third party payers such as Anthem Blue Cross. Deductions from revenue were 55.49% for the fiscal year 2023 compared to 48.99% for the fiscal year 2022.

Traditional charity care, uncompensated care, administrative adjustments and the provision for doubtful accounts for the fiscal years 2023 and 2022 were $13.1 million and $11.4 million, respectively.

Net Patient Service Revenues

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues increased in 2023 by $5,854,656 over 2022 due mainly to increased volumes and the increases in government supplemental payments.

Operating Expenses

Total operating expenses in fiscal year 2023 were $143,236,712 million compared to $134,295,581 million in 2022. Significant changes occurred in the following areas:

- Total labor expense and related benefits increased by $5,244,096. Total full time equivalents (FTEs) in the fiscal year 2023 were 662.80 compared to 628.40 in the prior year. Increases were associated mainly with increased FTE's and employee benefit increases.
- Professional and other fees increased by $609,412 due primarily to additional providers.
- Registry and other contract labor increased by $1,237,833 again due mainly to volume increases coupled with labor shortages.
- Supplies increased by $1,823,853, driven primarily by volume increases.
- Depreciation increased by $412,879.
- Other categories of expenses (purchased services, utilities, insurance, rent, and depreciation) varied only marginally.

Economic Factors and Next Fiscal Year's Budget

The District's Board approved the fiscal year ending June 30, 2024 capital and operating budgets at a recent board meeting. Key budget assumptions included:

- The consolidated budget projects close to a break even in the District's net position.
- Based on recent history, volume projections are expected to increase slightly.
- Medicare reimbursement was based on the current IPPS rules information. Supplemental reimbursement and Quality Incentive Program were included in Medicaid reimbursement. Commercially insured reimbursement was based on current contracts.
- Operating expenses are expected to increase by approximately $3 million while operating revenues are projected to remain at the 2023 levels after accounting for a roughly $3.7 million decrease in supplemental funding. Non-operating revenues over expenses are expected decrease slightly from the 2023 levels.

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Report of Independent Auditors

The Board of Directors
Lompoc Valley Medical Center
Lompoc, California

Opinion

We have audited the accompanying financial statements of the Lompoc Valley Medical Center, a district hospital (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 combined 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 financial position of the District as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but it 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 judgement 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern.

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.

Emphasis of Matter

As discussed in Note A, the District adopted GASB 87 for the year beginning July 1, 2021 and ending June 30, 2022. Our opinion is not modified with respect to this matter.

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 combined basic financial statements. Such information is the responsibility of management and, although not a part of the combined 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 combined 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 *Government Auditing Standards*, 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 combined basic financial statements, and other knowledge we obtained during our audit of the combined 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the combined basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined basic financial statements or to the combined basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In our opinion, the supplementary schedules as listed in the table of contents are fairly stated, in all material respects, in relation to the combined basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JWT & Associates, LLP

Fresno, California
October 23, 2023

Combined Statements of Net Position

LOMPOC VALLEY MEDICAL CENTER

	June 30 2023	June 30 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 20,506,135	$ 28,244,172
Assets limited as to use available for current debt service	3,953,053	3,781,292
Patient accounts receivable, net of allowances	13,092,224	11,527,797
Other receivables and physician advances	32,885,546	26,273,337
Inventories	1,493,185	1,450,450
Prepaid expenses and deposits	1,346,977	2,313,722
Total current assets	73,277,120	73,590,770
Assets limited as to use	5,913,560	5,549,373
Capital assets, net of accumulated depreciation	86,040,111	86,249,741
Other assets	7,797,493	8,477,350
	173,028,284	173,867,234
Deferred outflows of resources	1,211,780	1,281,451
	$174,240,064	$175,148,685
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	$ 3,643,819	$ 4,237,197
Accounts payable and accrued expenses	8,153,129	9,274,442
Accrued payroll and related liabilities	5,434,956	6,177,620
Estimated third party payor settlements, net	5,100,908	1,173,263
Total current liabilities	22,332,812	20,862,522
Other long term liabilities, less current portion	2,279,728	2,574,606
Debt borrowings, net of current maturities	75,573,867	79,329,651
	100,186,407	102,766,779
Deferred inflows of resources	8,543,401	7,892,163
Net position		
Invested in capital assets, net of related debt	7,630,197	3,539,526
Restricted, by bond indenture agreements for debt service	6,529,790	6,019,362
Unrestricted	51,350,269	54,930,855
Total net position	65,510,256	64,489,743
	$174,240,064	$175,148,685

Combined Statements of Revenues, Expenses and Changes in Net Position

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
Operating revenues	2023	2022
Net patient service revenue	$139,647,243	$133,792,587
Capitation and other operating revenues	5,329,503	3,782,860
Total operating revenues	144,976,746	137,575,447
Operating expenses		
Salaries and wages	50,138,653	46,107,006
Employee benefits	18,254,677	17,042,228
Professional and other fees	13,597,795	12,988,383
Registry and other contract labor	12,891,924	11,654,091
Supplies	20,963,889	19,140,036
Purchased services	11,825,776	11,996,167
Utilities	1,527,891	1,399,014
Building and equipment rent	232,816	482,818
Insurance	2,024,404	1,975,609
Depreciation and amortization	7,156,645	6,743,766
Other operating expenses	4,622,242	4,769,463
Total operating expenses	143,236,712	134,295,581
Operating income (loss)	1,740,034	3,276,866
Nonoperating revenues (expenses)		
District tax revenues	5,748,613	5,265,531
Investment income	962,197	667,819
Interest expense	(2,416,935)	(2,523,842)
Gain (loss) on disposals of property	(114,671)	34,466
Grants and contributions	101,275	2,201,191
Total nonoperating revenues (expenses)	4,280,479	5,645,165
Increase in net position before CenCal settlement	6,020,513	8,922,031
CenCal settlement	(5,000,000)	
Increase in net position	1,020,513	8,922,031
Net position at beginning of the year	64,489,743	55,567,712
Net position at end of the year	$ 65,510,256	$ 64,489,743

See accompanying notes and auditor's report

Combined Statements of Cash Flows

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
	2023	2022
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	$136,134,023	$115,358,241
Cash received from operations, other than patient services	5,329,503	3,047,089
Cash payments to suppliers and contractors	(73,827,980)	(60,860,899)
Cash payments to employees and benefit programs	(69,135,994)	(63,130,896)
Net cash (used in) operating activities	(2,236,219)	(5,586,465)
Cash flows from noncapital financing activities:		
District tax revenues	1,297,586	1,183,802
Grants and contributions	101,275	2,201,191
Net cash provided by noncapital financing activities	1,398,861	3,384,993
Cash flows from capital and related financing activities:		
District tax revenues related to capital financing from bonds	4,451,027	4,081,729
Purchase of capital assets, disposals and other	(5,011,858)	(17,293,410)
Proceeds from debt borrowings		2,995,209
Principal payments on debt borrowings and premium accretion	(4,349,162)	(3,311,675)
Interest on debt borrowings	(2,416,935)	(2,523,842)
Net cash (used in) capital financing activities	(7,326,928)	(16,051,989)
Cash flows from investing activities:		
Net (purchase) or sale of investments	(535,948)	(1,737,880)
Interest received from investments	962,197	667,819
Net cash provided by (used in) investing activities	426,249	(1,070,061)
Net (decrease) in cash and cash equivalents	(7,738,037)	(19,323,522)
Cash and cash equivalents at beginning of year	28,244,172	47,567,694
Cash and cash equivalents at end of year	$ 20,506,135	$ 28,244,172

See accompanying notes and auditor's report

Combined Statements of Cash Flows (continued)

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
	2023	2022
Reconciliation of operating income to net cash (used in) operating activities:		
Operating income	$ 1,740,034	$ 3,276,866
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,156,645	6,743,766
Provision for uncollectible accounts	6,660,367	3,484,076
Changes in operating assets and liabilities:		
Patient accounts receivables	(8,224,794)	(5,371,731)
Other receivables	(6,612,209)	(16,096,904)
Inventories	(42,735)	135,951
Prepaid expenses and deposits	966,745	(948,991)
Accounts payable and accrued expenses	(7,421,313)	(3,042,149)
Accrued payroll and related liabilities	(742,664)	(1,014,396)
Estimated third party payor settlements	3,927,645	(1,185,558)
Other long term liabilities	356,060	8,432,605
Net cash (used in) operating activities	$ (2,236,219)	$ (5,586,465)

See accompanying notes and auditor's report

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Lompoc Valley Medical Center (the District) is a public entity healthcare district organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the district to specified terms of office. The District is located in Lompoc, California and operates a 60-bed acute care hospital, a 110-bed skilled nursing facility, and other patient services. The District provides health care services primarily to individuals who reside in the local geographic area. A combining statement is presented in the supplementary information to these combined financial statements.

Basis of Preparation: The accounting policies and combined financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The combined financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates: The preparation of the combined 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 disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Investments: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated value as represented by the external pool. The District has elected not to report investments at amortized cost.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Inventories: Inventories are consistently reported from year to year at cost determined on combination of first-in, first-out (FIFO) basis for certain types of inventory and replacement values which are not in excess of market, for other types of inventory.

Assets Limited as to Use: Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

Capital Assets: Capital assets consist of property and equipment and 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 which increase values, change capacities, or extend useful lives are capitalized. During periods of asset construction, the District capitalizes interest cost net of any interest earned on temporary investments of the proceeds set aside for construction projects funded by tax-exempt debt borrowings. Interest expense is also capitalized for projects financed with operating funds.

Depreciation of property and equipment and amortization of property under capital leases are combined in the statements of revenues, expenses and changes in net position and are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment. As of June 30, 2023 and 2022, the District has determined that no capital assets are significantly impaired.

Other Assets: Other assets are comprised of property held for future use in the amounts of $46,377 and $1,086,000 as of June 30, 2023 and 2022, respectively. Other asset also include long-term lease receivables in the amount of $8,414,337 and $7,391,350 as of June 30, 2023 and 2022, respectively. The lease receivables are due to GASB 87 and the GASB 87 lease recording requirements as discussed further in footnote N.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources: Deferred outflows of resources (formerly debt borrowing issue costs) are comprised of deferred financing cost of the issuance of debt borrowings. Amortization of these deferred outflows are computed by the straight-line method over the life of the repayment agreements. For current and advance refundings, which result in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized deferred financing costs, is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Net amortization was $69,671 and $69,671 for the years ended June 30, 2023 and 2022, respectively.

Compensated Absences: The District's employees earn paid-time-off (PTO) benefits at varying rates depending on years of service. PTO benefits can accumulate up to specified maximum levels. Employees are paid for PTO accumulated benefits if they leave either upon termination or separation. Accrued PTO liabilities as of June 30, 2023 and 2022 were $2,989,506 and $2,914,015, respectively.

Risk Management: The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Net position: Net position is presented in three categories. The first category of net position is "invested in capital assets, net of related debt". This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is "restricted" net position. This category consists of externally designated constraints placed on assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation. The third category is "unrestricted" net position. This category consists of net position that does not meet the definition or criteria of the previous two categories

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Charity Care: The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient revenues and then written off entirely as an adjustment to net patient service revenues. Partial payments to which the District is entitled from public assistance programs on behalf of certain patients that meet the District's charity care criteria are reported under net patient service revenues. These supplemental programs are generally funded from governmental agencies and others. Total charity care was $5,451,654 and $7,063,143 for the years ended June 30, 2023 and 2022, respectively.

District Tax Revenues: The District receives approximately 5.0% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

Recently Adopted Accounting Pronouncement: In June, 2017 the Governmental Accounting Standards Board released GASB 87 regarding changes in the way leases are accounted for. GASB 87 superceded GASB 13 and GASB 62 and more accurately portrays lease obligations by recognizing lease assets and lease liabilities on the statement of net position and disclosing key information about leasing arrangements. The District has adopted GASB 87 effective July 1, 2021 in accordance with the timetable established by GASB 87.

Reclassifications: Certain financial statement amounts as presented in the prior year combined financial statements have been reclassified in these, the current year combined financial statements, in order to conform to the current year combined financial statement presentation.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition: As previously stated, net patient service revenues are reported at amounts that reflect the consideration to which the District expects to be entitled in exchange for patient services. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of third-party payor audits, reviews, and investigations. Generally, the District bills the patients and third-party payors several days after the patient receives healthcare services at the District. Revenue is recognized as services are rendered.

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per day, discharge or visit, reimbursed costs, discounted charges and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the asset is to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived asset is placed in service. Cash received in excess of revenue recognized is deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Donor restricted contributions whose restriction expire during the same fiscal year are recognized as net assets without donor restrictions. Absent donor imposed restrictions, the District records donated services, materials, and facilities as net assets without donor restrictions.

From time to time, the District receives grants from various governmental agencies and private organizations. Revenues from grants are recognized when all eligibility requirements, including time requirements are met. Grants may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2023 and 2022, the District had deposits with various financial institutions in the form of operating cash and cash equivalents amounting to $1,689,438 and $1,273,015. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), and are federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District. Investments consist of U.S. Government securities and state and local agency funds invested in U. S. Government securities and are stated at quoted market values. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net position.

NOTE C - NET PATIENT SERVICE REVENUES

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary accordingly to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. The District is, generally, no longer subject to cost reimbursable services. Certain reimbursement areas are still subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2023, cost reports through June 30, 2019 have been audited or otherwise final settled.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal patients are made based on reasonable costs through December 31, 2013. Effective January 1, 2014, the State of California's Medi-Cal program changed inpatient reimbursement to Diagnosis-Related Groups (DRG), as mandated by Senate Bill 853 and added to section 14105.28 of the Welfare and Institution Code. Outpatient payments continue to be paid on pre-determined charge screens. The District is paid for cost-based long-term care services at rates determined by the State. Rates are updated annually based on the State's rate setting methodology. The rates are prospective and therefore no final settlement is determined after submission of annual cost reports and audits thereof by the State. At June 30, 2023, cost reports through June 30, 2019, have been audited or otherwise final settled.

Other: Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

NOTE C - NET PATIENT SERVICE REVENUES (continued)

Net patient service revenues for the years ended June 30, 2023 and 2022 are summarized by payor as follows:

	2023	2022
Medicare services	$131,726,859	$106,614,853
Medi-Cal services	96,041,592	82,160,718
Commercial insurance and other payors	85,960,836	73,525,327
Gross patient service revenues	313,729,287	262,300,898
Less estimated deductions from revenue	(174,082,044)	(128,508,311)
Net patient service revenues	$139,647,243	$133,792,587

Medicare and Medi-Cal gross patient revenues were approximately 73% and 72% of the District's total gross patient revenues for 2023 and 2022, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded deduction from revenue estimates could change by material amounts in the near term.

NOTE D - CONCENTRATION OF CREDIT RISK

Patient Accounts Receivable: The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2023 and 2022 were as follows:

	2023	2022
Medicare	$ 15,913,223	$ 12,140,397
Medi-Cal	11,886,607	9,068,038
Other third party payors	16,369,593	12,669,255
Self pay and other	2,587,756	1,793,456
Patient accounts receivable, before allowances	46,757,179	35,671,146
Less allowances for deductions from revenue	(33,664,955)	(24,143,349)
Patient accounts receivable, net of allowances	$ 13,092,224	$ 11,527,797

NOTE D - CONCENTRATION OF CREDIT RISK (continued)

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of $250,000. Although deposits exceed the limit in certain bank accounts, management believes that the risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss due to concentration of credit risk with regards to investments as the District has no investments in equity funds, closed-end funds, exchange-traded products, or other perceived “at risk” alternatives as of June 30, 2023 and 2022.

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2023 and 2022 were comprised of the following:

	2023	2022
Receivable from government supplemental programs	$ 31,219,577	$ 24,055,155
Lease receivables - current portion	1,121,730	958,604
Interest receivable from various investments	167,003	62,673
Employee loans	40,225	38,917
Physician property note receivable	67,613	99,448
Other various receivables	269,398	1,058,540
	$ 32,885,546	$ 26,273,337

The District is involved in various governmental subsidies designed as supplemental payments to hospitals for various types of additional payments revolving around patients and patient utilization. These supplemental payments are recorded as a contra to deductions from revenue due to the nature of the payments and as directed by the State for reporting purposes.

NOTE F - RELATED PARTY TRANSACTIONS

The Lompoc Hospital District Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501(c)(3) to solicit contributions on behalf of the healthcare providers in the Lompoc area. Substantially all funds raised, except for funds required for operation of the Foundation, are distributed to the various healthcare organizations in the area including the District. The Foundation's funds are distributed to the District in amounts and in periods determined by the Foundation's Board of Directors, who may also restrict the use of funds for District property and equipment replacement or expansion or other specific purposes. Donations by the Foundation were $100,000 and $100,000 for the years ended June 30, 2023 and 2022, respectively. The Foundation is not considered to be a component unit of the District.

NOTE G - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2023 and 2022 were comprised of the following:

	2023	2022
Restricted for the following various purposes:		
Cash, cash equivalents and debt securities for board purposes	$ 3,336,823	$ 3,311,304
Cash, cash equivalents and debt securities, in trust agreements	6,529,790	6,019,361
	9,866,613	9,330,665
Less assets limited as to use available for current debt service	(3,953,053)	(3,781,292)
	$ 5,913,560	$ 5,549,373

NOTE H -INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2023 and 2022:

		Investment Maturities in Years		
As of June 30, 2023	Fair Value	Less than 1	1 to 5	Over 5
Savings and cash equivalents	$ 7,016	$ 7,016		
Local agency investment fund	22,148,458	22,148,458		
Total investments	$ 22,155,474	$ 22,155,474	$ -0-	$ -0-

		Investment Maturities in Years		
As of June 30, 2022	Fair Value	Less than 1	1 to 5	Over 5
Savings and cash equivalents	$ 7,004	$ 7,004		
Local agency investment fund	30,277,398	30,277,398		
Total investments	$ 30,284,402	$ 30,284,402	$ -0-	$ -0-

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 a hospital 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 position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for hospital operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

NOTE H -INVESTMENTS (continued)

Credit Risk: Credit risk is the risk that the 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, such as Moody's Investor Service, Inc. Generally a hospital's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of $500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), a hospital would not be able to recover the value of its investment or collateral securities that are in the possession of another party. A hospital's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a hospital's investment in a single issuer. A hospital's investment policy generally allows for different concentrations in selected investment portfolios such as government-backed securities, which are deemed to be lower risk.

Investment Hierarchy - The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant other unobservable inputs. The Hospital investments are solely measured by Level 1 inputs and does not have any investments that are measured using Level 2 or 3 inputs.

Local Agency Investment Fund: The State makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Investments are highly liquid and can be converted to cash within 24 hours. Participation in LAIF is voluntary and is limited to $40 million for each entity. The fair value of the District's investment in LAIF is reported based on the District's pro rata share of the fair value provided by LAIF for the entire portfolio.

NOTE I - EMPLOYEES' RETIREMENT PLAN

The District offers a 457 deferred compensation plan (the Plan) to eligible employees. The Plan allows participants to defer income during peak years and set it aside as retirement savings. The employee funds set aside are pre-tax dollars and therefore reduce the amount of current income taxable to the employee. The District has established certain requirements in order for employees to qualify for the Plan. All contributions are voluntary by the employee and they are 100% vested at inception.

Effective July 1, 2011, the District offers a 401(a) employer funded retirement plan to eligible employees. Employees will be vested based upon a "tiered" schedule, with 100% vesting after three years.

NOTE J - CAPITAL ASSETS

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

	Balance at June 30, 2022	Transfers & Additions	Retirements	Balance at June 30, 2023
Land and land improvements	$ 14,552,363	$ 860,009		$ 15,412,372
Buildings and improvements	121,412,012	3,277,961		124,689,973
Equipment	56,683,080	2,385,190	$ (187,776)	58,880,494
Construction-in-progress	2,324,940	294,298		2,619,238
Totals at historical cost	194,972,395	6,817,458	(187,776)	201,602,077
Less accumulated depreciation for:				
Land and land improvements	(6,336,660)	(306,223)		(6,642,883)
Buildings and improvements	(57,729,594)	(3,798,316)		(61,527,910)
Equipment	(44,656,400)	(2,810,497)	75,724	(47,391,173)
Total accumulated depreciation	(108,722,654)	(6,915,036)	75,724	(115,561,966)
Capital assets, net	$ 86,249,741	$ (97,578)	$ (112,052)	$ 86,040,111

	Balance at June 30, 2021	Transfers & Additions	Retirements	Balance at June 30, 2022
Land and land improvements	$ 14,512,740	$ 39,623		$ 14,552,363
Buildings and improvements	120,086,815	1,325,197		121,412,012
Equipment	50,467,512	6,215,568		56,683,080
Construction-in-progress	1,248,351	1,076,589		2,324,940
Totals at historical cost	186,315,418	8,656,977		194,972,395
Less accumulated depreciation for:				
Land and land improvements	(6,030,683)	(305,977)		(6,336,660)
Buildings and improvements	(53,974,661)	(3,754,933)		(57,729,594)
Equipment	(42,236,764)	(2,419,636)		(44,656,400)
Total accumulated depreciation	(102,242,108)	(6,480,546)		(108,722,654)
Capital assets, net	$ 84,073,310	$ 2,176,431	$	$ 86,249,741

NOTE K - DEBT BORROWINGS

As of June 30, 2023 and 2022, debt borrowings were as follows:

	2022	2022
Lompoc Valley Medical Center 2020 General Obligation Refunding Bonds (refinanced 2013 General Obligation Refunding Bonds during the fiscal year ended June 30, 2021); principal due each August 1st at various amounts through August 1, 2036; interest due semi-annually on August 1st and February 1st (2.31%); collateralized by District property tax revenues:	$ 32,898,283	$ 34,413,225
Lompoc Valley Medical Center Taxable Insured Refunding Revenue Bonds, Series 2020 (refinanced 2013 Revenue Bonds during the fiscal year ended June 30, 2021); principal due each July 1st at various amounts through July 1, 2042; interest due semi-annually on July 1st and January 1st (1.75% to 2.996%); collateralized by District revenues and other property:	15,605,000	16,200,000
Lompoc Healthcare District 2014 General Obligation Refunding Bonds, principal payment due each August 1st at various amounts through August 1, 2037; interest due semi-annually on August 1st and February 1st (2% to 5%) collateralized by District property tax revenues:	29,200,000	29,825,000
Note payable with a bank; principal and interest due on 10/1/22, 4/1/23 and 10/1/23 in the amount of $784,372 each due date; interest imputed at 3.50%; collateralized by District assets:	706,632	2,271,990
Bond premiums	807,771	856,633
	79,217,686	83,566,848
Less current maturities of debt borrowings	(3,643,819)	(4,237,197)
	$ 75,573,867	$ 79,329,651

Future principal maturities for debt borrowings for the next five succeeding years are: $3,643,819 in 2024; $3,169,179 in 2025; $3,402,611 in 2026; $3,663,767 in 2027; and $3,910,403 in 2028.

NOTE L - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2023, the District has recorded $2,619,238 as construction-in-progress representing cost capitalized for various remodeling and expansion projects on the District's premises. Future costs to complete all projects as of June 30, 2023 are considered minor.

Operating Leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2023 and 2022, was $232,816 and $482,818, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2023, other than those disclosed in Note N, that have remaining terms in excess of one year are not material.

Litigation: The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation 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.

Medical Malpractice Insurance: The District maintains commercial malpractice liability insurance coverage under a claims made and reported policy covering losses up to $10 million per claim and $20 million in the annual aggregate, with a per claim deductible of $10,000. The District plans to maintain the insurance coverage by renewing its current policy, or by replacing it with equivalent insurance.

Workers Compensation Program: The District is self-funded for workers' compensation and is issued a Certificate of Consent to Self-Insure by the State of California, Department of Industrial Relations. The District purchases excess liability insurance to provide coverage for workers' compensation claim exposures over its self-insurance retention limit of $750,000. For the year ended June 30, 2023 and 2022, the District expense for worker's compensation was $848,832 and $1,613,830, respectively.

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management believes the District is in compliance with HIPAA as of June 30, 2023 and 2022.

Regulatory Environment: The District is subject to several laws and regulations. These laws and regulations include matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to possible violations of statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with all applicable government laws and regulations and is not aware of any future actions or unasserted claims at this time.

NOTE M - CHARITY CARE AND COMMUNITY BENEFIT EXPENSE

The District monitors the level of charity care and community service it provides. The amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care policies are presented in the following summary which is a compilation of the District's charity care and community benefit expense for the years ended June 30, 2023 and 2022, in terms of services to the poor and benefits to the broader community:

Benefits for the poor:	2023	2022
Traditional charity care	$ 5,451,654	$ 7,063,143
Uncompensated care and administrative write-offs	1,000,994	889,972
Total net charity and uncompensated care	6,452,648	7,963,115
Unpaid Medi-Cal program charges	31,574,650	19,399,498
Total quantifiable benefits for the poor	38,027,298	27,362,613
Benefits for the broader community:		
Unpaid Medicare program charges	91,199,288	68,908,208
Total quantifiable benefits for the broader community	91,199,288	68,908,208
Total quantifiable community benefits	$129,226,586	$ 96,270,821

NOTE N - LEASES

As of July 1, 2021 the District adopted the Governmental Accounting Standards Board (GASB) 87 requiring certain changes in the way the District accounted for leases, both as a leasee and as a lessor.

Leasee: The District leases office space for Oncology services under an operating lease. Lease commencement occurs on the date the District takes possession or control of the property. Original terms for the lease is 10 years. This lease contains an option to extend for two successive periods of five years each. The annual increase to base rent of 2.5% will be used should the option to extend be exercised.

The lease does not contain a readily determinable discount rate. The estimated borrowing rate of 3.5% was used to discount the remaining cash flows for this operating lease.

This lease requires payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Variable lease costs are excluded from the present value of lease obligations.

The District's lease agreement does not contain any material restrictions, covenants, or any material residual value guarantees.

NOTE N - LEASES (continued)

Lessee -lease related assets and liabilities as of June 30, 2023 and 2022 consist of the following:

	2023	2022
Assets:		
Operating lease asset - current portion	$ 132,879	$ 128,348
Operating lease asset - noncurrent portion	196,564	329,443
Total lease assets	$ 329,443	$ 457,791
Liabilities:		
Operating lease payable - current portion	$ 133,828	$ 125,796
Operating lease payable - noncurrent portion	204,136	337,964
Total operating lease payables	$ 337,964	$ 463,760

Total operating lease expense under this lease arrangement for the years ended June 30, 2023 and 2022 was $128,348 and $124,092, respectively.

The future minimum rental payments required under operating lease obligations as of June 30, 2023, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

Years ending June 30,

2024	$ 143,535
2025	147,123
2026	62,445
2027	-0-
Thereafter	-0-
Total	353,103
Less: interest	(15,139)
Present value of lease liabilities	$ 337,964

The weighted average for the remaining lease term of this operating lease is 2.42 and the weighted average discount rate for this operating leases is 3.5%

NOTE N - LEASES (continued)

Lessor: The District leases the Champion Center and another building to third parties under operating leases. Lease commencement occurs on the date the District third party takes possession or control of the properties. Original terms for the leases varies. This leases contain an options to extend for additional years. The leases also contain options to terminate the leases at specific times. For purposes of lease calculations for these operating leases, it is assumed that the termination clauses would not be exercised due to the significant penalty associated with the early termination conditions and other factors.

The leases do not contain a readily determinable discount rate. The estimated borrowing rate of 3.5% was used to discount the remaining cash flows for these operating leases.

These leases require payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Variable lease costs are excluded from the present value of these lease obligations.

The District's lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees.

Lessor-lease related assets and deferred inflows of resources as of June 30, 2023 and 2022 consist of the following:

	2023	2022
Assets:		
Lease receivable - current portion	$ 988,851	$ 830,256
Lease receivable - noncurrent portion	7,554,550	7,061,907
Total lease assets	$ 8,543,401	$ 7,892,163
Deferred inflows of resources:		
Deferred inflows of resources	$ 8,543,401	$ 7,892,163
Total deferred inflows of resources	$ 8,543,401	$ 7,892,163

Total operating lease revenues under these lease arrangements for the years ended June 30, 2023 and 2022 were $849,940 and $801,741, respectively.

The future minimum rental payments required under operating lease obligations as of June 30, 2023 and 2022, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

NOTE N - LEASES (continued)

Years ending June 30,

2024	$ 1,263,768
2025	1,263,768
2026	1,263,768
2027	1,263,768
Thereafter	4,724,118
Total	9,779,190
Less: interest	(1,235,789)
Present value of lease receivable	$ 8,543,401

The weighted average for the remaining lease term of this operating lease is 7.33 and the weighted average discount rate for this operating leases is 3.5%

NOTE O - SUBSEQUENT EVENTS

CenCal Settlement - On August 24, 2023 the District an agreement whereas the District reached a settlement agreement in the amount of $5,000,000. This settlement agreement was entered into among the United States of America, acting through the United States Department of Justice and on behalf of the Office of the Inspector General of the Department of Health and Human Services, the State of California, acting through the California Department of Justice Division fo Medi-Cal Fraud and Elder Abuse, the District and a relator. The settlement agreement was related to alleged violations of the False Claims Act and the California False Claims Act whereas it was alleged that the District violated both acts in connection with certain payments made by the Santa Barbara San Luis Obispo Regional Health Authority d/b/a CenCal related to the Medi-Cal Adult Expansion under the Affordable Care Act to the District. This settlement agreement has been recorded as a separate line item for the year ended June 30, 2023.

Other Events - Management evaluated the effect of other subsequent events on the combined financial statements through October 23, 2023, the date the combined financial statements are issued, and determined that there were no other material subsequent events that have not been disclosed, other than the one mentioned.

SUPPLEMENTARY SCHEDULES

Combining Statements of Net Position

LOMPOC VALLEY MEDICAL CENTER

June 30, 2023

	Hospital	Champion Center	Eliminations	Combined Total
Assets				
Current assets:				
Cash and cash equivalents	$ 20,506,135			$ 20,506,135
Assets limited as to use	3,120,291	$ 832,762		3,953,053
Patient accounts receivable	13,092,224			13,092,224
Other receivables	32,025,760	859,786		32,885,546
Inventories	1,493,185			1,493,185
Prepaid expenses and deposits	1,346,977			1,346,977
Total current assets	71,584,572	1,692,548		73,277,120
Assets limited as to use	5,264,405	649,155		5,913,560
Capital assets, net	71,738,800	14,301,311		86,040,111
Other assets	1,595,372	6,202,121		7,797,493
	150,183,149	22,845,135		173,028,284
Deferred outflows of resources	256,821	954,959		1,211,780
	$150,439,970	$ 23,800,094		$174,240,064
Liabilities				
Current liabilities:				
Current debt maturities	$ 3,038,819	$ 605,000		$ 3,643,819
Accounts payable	7,925,367	227,762		8,153,129
Accrued payroll	5,434,956			5,434,956
Estimated settlements, net	5,100,908			5,100,908
Total current liabilities	21,500,050	832,762		22,332,812
Other long-term liabilities	2,279,728			2,279,728
Debt borrowings, less current	60,182,784	15,391,083		75,573,867
	83,962,562	16,223,845		100,186,407
Deferred inflows of resources	1,481,494	7,061,907		8,543,401
Net position				
Invested in capital assets	8,933,886	(1,303,689)		7,630,197
Restricted for debt service	5,047,873	1,481,917		6,529,790
Unrestricted (deficit)	51,014,155	336,114		51,350,269
	64,995,914	514,342		65,510,256
	$150,439,970	$ 23,800,094		$174,240,064

Combining Statement of Revenues, Expenses and Changes in Net Position

LOMPOC VALLEY MEDICAL CENTER

June 30, 2023

	Hospital	Champion Center	Eliminations	Combined Total
Operating revenues				
Net patient service revenues	$139,647,243			$139,647,243
Capitation revenue	834,145			834,145
Other operating revenues	3,401,960	$ 1,093,398		4,495,358
Total operating revenues	143,883,348	1,093,398		144,976,746
Operating expenses				
Salaries and wages	50,138,653			50,138,653
Employee benefits	18,254,677			18,254,677
Professional and other fees	13,597,795			13,597,795
Registry	12,891,924			12,891,924
Supplies	20,963,889			20,963,889
Purchased services	11,824,493	1,283		11,825,776
Utilities	1,527,891			1,527,891
Building and equipment rent	232,816			232,816
Insurance	2,002,504	21,900		2,024,404
Depreciation and amortization	6,145,404	1,011,241		7,156,645
Other operating expenses	4,622,242			4,622,242
Total operating expenses	142,202,288	1,034,424		143,236,712
Operating income (loss)	1,681,060	58,974		1,740,034
Nonoperating				
District tax revenues	5,748,613			5,748,613
Investment income	865,622	96,575		962,197
Interest expense	(1,961,415)	(455,520)		(2,416,935)
Gain on disposals of property	(114,671)			(114,671)
Contributions	101,275			101,275
Total nonoperating	4,639,424	(358,945)		4,280,479
Increase (decrease) before CenCal	6,320,484	(299,971)		6,020,513
CenCal settlement	(5,000,000)			(5,000,000)
Increase (decrease) in net position	$ 1,320,484	$ (299,971)		$ 1,020,513

Earnings Before Interest, Depreciation and Amortization (EBIDA)

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
Operating revenues	2023	2022
Net patient service revenue	$139,647,243	$133,792,587
Capitation revenue	834,145	735,771
Other operating revenues	4,495,358	3,047,089
Total operating revenues	144,976,746	137,575,447
Operating expenses		
Salaries and wages	50,138,653	46,107,006
Employee benefits	18,254,677	17,042,228
Professional and other fees	13,597,795	12,988,383
Registry	12,891,924	11,654,091
Supplies	20,963,889	19,140,036
Purchased services	11,825,776	11,996,167
Utilities	1,527,891	1,399,014
Building and equipment rent	232,816	482,818
Insurance	2,024,404	1,975,609
Other operating expenses	4,622,242	4,769,463
Total operating expenses w/o interest, depreciation & amortization	136,080,067	127,554,815
Earnings before interest, depreciation and amortization	$ 8,896,679	$ 10,020,632

The earnings before interest, depreciation and amortization schedule is derived from the combined statements of operations and changes in net assets. However, it excludes the following line items:

Interest expense
Depreciation and amortization
District tax revenues
Investment income
Gain on disposals of property
Contributions

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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

The Board of Directors
Lompoc Valley Medical Center
Lompoc, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the Lompoc Valley Medical Center, a district hospital (the District) as of and for the years ended June 30, 2023 and 2022, and the related notes to the combined financial statements, which collectively comprise the District's combined financial statements, and have issued our report thereon dated October 23, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the combined 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 opinion on the combined 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 combined 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 those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's combined 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 combined financial statement. 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.

JWT & Associates, LLP

Fresno, California
October 23, 2023