Audited Combined Financial Statements

LOMPOC
VALLEY MEDICAL CENTER

June 30, 2022

JWT & Associates, LLP
Certified Public Accountants

Audited Combined Financial Statements

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Management's Discussion and Analysis

LOMPOC VALLEY MEDICAL CENTER

June 30, 2022

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, 2022 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, 2022 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 increased by $11.8 million over the prior fiscal year. Total cash and cash equivalents decreased by $19.3 million (see the Statements of Cash Flows for changes). Net patient accounts receivable (A/R) increased by $1.9 million. Net days in outstanding patient accounts receivable were 31.5 compared to 29.4 in the prior year. The increase in A/R days was primarily associated volume increases during the fiscal year 2022. Other receivables increased by $16.1 million due to increases in supplemental funding, GASB 87 lease changes, and the timing of payments.

- Current assets decreased by $.36 million and current liabilities also decreased by $4.2 million when compared to the prior fiscal year. The current ratios for current and prior years were 3.55 and 2.97, respectively.

- Net operating revenues increased by $14.3 million and operating expenses also increased by $16.9 million both due mainly to increased volumes.

- There was an operating gain of $3.2 million compared to an operating gain of $5.8 million in the prior year.

- Non-operating revenues (expenses) increased by $2.4 million, related mainly to $.3 million due to GASB 87 changes in leases, $1.8 million in donated property and $.4 million in another CARES Act grant received in the current year.

- The increase in net position was $8.9 million compared to an increase of $9.1 million in the prior year.

- Governmental supplemental programs provided approximately $24 million additional reimbursement.

Overview of Lompoc Valley Medical Center's Financial Statements

This annual report consists of the audited financial statements and the notes to the financial statements which reflect the District's financial position and operating results for the fiscal years ended June 30, 2022 and June 30, 2021. The audited financial statements include the report of the independent auditors, statements of financial position, statements of revenues, expenses and changes in net position, and statements of cash flows. They also include notes to the financial statements.

- The statements of net position include all of the District's assets and liabilities based on the accrual method of accounting for the years ended June 30, 2022 and 2021.
- The statements of revenues, expenses and changes in net position present the operating activities of the District during the fiscal years ended June 30, 2022 and 2021.
- The statements of cash flows report the net cash provided by operating activities as well as other sources and uses of cash from various District financial activities for the years ended June 30, 2022 and 2021.

Financial Analysis of the District for the Year Ended June 30, 2022

A summary of the District's net assets for 2022, 2021 and 2020 is as follows:

	2022	2021	% Change	2020	% Change
Assets (000's)					
Current assets	$ 73,591	$ 73,949	-1%	$ 61,591	20%
Non-current assets	100,277	88,053	14%	93,898	-6%
Deferred outflows	1,281	1,351	-5%	1,421	-5%
Total	$ 175,149	$ 163,353	7%	$ 156,910	4%
Liabilities (000's)					
Current liabilities	$ 20,738	$ 24,939	-17%	$ 22,266	12%
Other liabilities	81,565	82,846	-2%	88,156	-6%
Deferred outflows	8,356		n/a		n/a
Total liabilities	110,659	107,785	3%	110,422	-2%
Net position (000's)					
Net investment in capital	3,540	1,095	323%	3,996	-73%
Restricted	6,019	5,866	3%	6,018	-3%
Unrestricted	54,931	48,607	13%	36,474	33%
Total net position	64,490	55,568	16%	46,488	20%
Total	$ 175,149	$ 163,353	7%	$ 156,910	4%

Cash and Investments

At fiscal year ended June 30, 2022, operating and board designated cash and investments totaled $28.2 million compared to $47.6 million in fiscal year 2021. Days of cash on hand decreased to 88.6 compared to 158.4 in the prior year. The District maintains sufficient cash and cash equivalents to pay all short-term liabilities.

Capital Assets, Other Assets and Deferred Outflows of Resources

Capital assets increased by $2.2 million, impacted by $8.7 million invested in new assets and offset by $6.5 million in depreciation expense. The $8.7 million of new assets was balanced between the purchase of major moveable equipment and various new projects involving the remodeling of various District facilities. Other assets increased by $8.5 million due to $1.1 million in donated property and $7.4 million in long-term lease receivables. Deferred outflows of resources decreased by $70,000 due the continued amortization of bond issue costs.

Current Liabilities, Debt Borrowings and Deferred Inflows of Resources

As previously noted, current liabilities decreased by $4.2 million. Current maturities of debt borrowings increased by $1.7 million due to new debt, accounts payable decreased by $3.7 million, accrued payroll and related expenses decreased by $1.0 million due mainly to payback from the participation in the Payroll Tax Deferral Program, and estimated third party payor settlements decreased by $1.2 million.

Purchase of MRI equipment of approximately $3.0 million was financed by a note payable in the approximate same amount during the year. Also as noted in prior years, the bond market provided an opportunity to refinance the tax exempt Revenue Bonds, Series 2013 and the General Obligation Bonds Series, 2013. The Revenue Bonds were refunded with taxable bonds that provided debt service savings of $400,000 and the ability to enter into a Champion Center lease agreement with a for-profit organization. The General Obligation Bonds provided $4.4 million of debt service savings for the District's tax payers. Both issues were Series 2020.

Deferred inflows of resources increased by $8.4 million due to the implementation of GASB 87 which relates to the operating lease obligations. This GASB increases the usefulness of financial statements by requiring recognition of certain operating lease obligations to recognize future cash inflows based upon the provisions of the lease contracts.

Changes in Net Position

The District enjoyed another good year financially with the changes in net position being $8,922,031 for the year ended June 30, 2022 as compared to $9,079,925 for the year ended June 30, 2021. This produced operating margins of 6.12% for the year as compared to 7.07% for the prior year. Margins previous to this ranged from around 1.5% to 3.3%. Returns on Net Position were 13.83% for June 30, 2022 as compared to 16.34% for the prior year. Returns on Net Position in previous years ranged from 4.4% to 8.4%

Revenues and Expenses for the year ended June 30, 2022, 2021 and 2020

The following shows the revenues, expenses and net assets for 2022, 2021 and 2020:

	2022	2021	2020
Operating revenues (000's)			
Net patient service revenue	$ 133,792	$ 119,701	$ 102,238
Capitation revenue	736	617	472
Other operating revenues	3,047	2,910	1,569
Total operating revenues	137,575	123,228	104,279
Operating expenses (000's)			
Salaries, wages and employee benefits	63,149	56,422	56,363
Professional fees and contract labor	24,642	18,371	16,423
Supplies	19,140	17,573	14,654
Purchased services	11,996	11,210	7,528
Utilities	1,399	1,390	1,523
Building and equipment rent	483	491	483
Insurance	1,976	2,072	1,971
Depreciation and amortization	6,744	6,332	6,698
Other operating expenses	4,768	3,546	4,979
Total operating expenses	134,297	117,407	110,622
Nonoperating revenues (expenses) (000's)			
District tax revenues	5,266	4,978	5,053
Investment income	667	432	561
Interest expense	(2,524)	(2,487)	(2,678)
Gains (losses) on disposals of property	34	(68)	
Grants and contributions	2,201	404	7,320
Total nonoperating revenues (expenses)	5,644	3,259	10,256
Increase (decrease) in net position	$ 8,922	$ 9,080	$ 3,913

Volumes

A summary of volume comparisons included:

- Acute patient days were 9,323 compared to 9,681 in the prior year.
- Patient/resident days in the District's skilled nursing facility were 29,190 compared to 27,221 in the prior year. The average daily census for the two periods was 80.0 in 2022 and 74.6 in 2021.
- Surgery cases for the fiscal year 2022 were 1,818 compared to 1,903 in the prior year.
- Emergency department visits were 21,712 in 2022 compared to 18,294 in 2021.
- Outpatient visits were 67,532 in 2022 compared to 63,312 in 2021.
- Clinic visits were 92,159 in 2022 compared to 78,645 in the prior year.

Programs

Last year the District started participation in the Quality Incentive Program (QIP), which is a "pay for performance" program available to California's public health care systems. This program converts funding from previously existing supplemental payments into a value-based structure, meeting the Managed Care Rule's option that allows payments to be tied to performance. The District is now participating in the maximum number of metrics, which are designed to improve quality of care and maximize the financial return from the program. Additionally, last year the District started participation in a Behavioral Health Integration Program, which is now offered in the Clinic setting. Finally, in response to the COVID-19 pandemic, last year the District starting offering a vaccination clinic to the community beginning in December 2020 which it has continued through the balance of each of the fiscal years 2021 and 2022.

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 $23.9 million over prior year. Specific growth by major payor included Medicare by $11.6 million and Medi-Cal by $10.2 million while commercial and self pay increased by $2.1 million. 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 48.99% for the fiscal year 2022 compared to 49.78% for the fiscal year 2021.

Traditional charity care, uncompensated care, administrative adjustments and the provision for doubtful accounts for the fiscal years 2022 and 2021 were $11.4 million and $10.8 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 2022 by $14.1 million over 2021 due mainly to increased volumes and the aforementioned increase in government supplemental payments.

Operating Expenses

Total operating expenses in fiscal year 2022 were $134.3 million compared to $117.4 million in 2021. Significant changes occurred in the following areas:

- Total labor expense and related benefits increased by $6.7 million. Total full time equivalents (FTEs) in the fiscal year 2022 were 628.4 compared to 610.5 in the prior year. Increases were associated mainly with employee benefit increases such as worker's compensation.
- Professional and other fees increased by $1.1 million due primarily to volume changes.
- Registry and other contract labor increased by $5.2 million again due mainly to volume increases coupled with labor shortages.
- Supplies increased by $1.6 million, driven primarily by volume increases.
- Other expenses increased by $1.2 million.
- 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, 2023 capital and operating budgets at a recent board meeting. Key budget assumptions included:

- The consolidated budget projects a $4.6 million increase 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 to $133.1 million while operating revenues are projected to increase to $134.4 million from the 2022 levels. Non-operating revenues over expenses are expected to be in the range of $3.4 million.

JWT & Associates, LLP

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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 business-type activities and fiduciary activities of the Lompoc Valley Medical Center, a district hospital (the District) as of and for the years ended June 30, 2022 and 2021, 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 business-type activities and fiduciary activities of the District as of June 30, 2022 and 2021, 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 September 22, 2022, 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
September 22, 2022

Combined Statements of Net Position

LOMPOC VALLEY MEDICAL CENTER

	June 30	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 28,244,172	$ 47,567,694
Assets limited as to use available for current debt service	3,781,292	3,613,700
Patient accounts receivable, net of allowances	11,527,797	9,640,142
Other receivables and physician advances	26,273,337	10,176,433
Inventories	1,450,450	1,586,401
Prepaid expenses and deposits	2,313,722	1,364,731
Total current assets	73,590,770	73,949,101
Assets limited as to use	5,549,373	3,979,085
Capital assets, net of accumulated depreciation	86,249,741	84,073,310
Other assets	8,477,350	
Total assets	173,867,234	162,001,496
Deferred outflows of resources	1,281,451	1,351,122
	$175,148,685	$163,352,618
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	$ 4,237,197	$ 2,539,594
Accounts payable and accrued expenses	9,148,646	12,848,207
Accrued payroll and related liabilities	6,177,620	7,192,016
Estimated third party payor settlements, net	1,173,263	2,358,821
Total current liabilities	20,736,726	24,938,638
Other long term liabilities	2,236,642	1,502,548
Debt borrowings, net of current maturities	79,329,651	81,343,720
Total liabilities	102,303,019	107,784,906
Deferred inflows of resources	8,355,923	
Net Position		
Invested in capital assets, net of related debt	3,539,526	1,095,491
Restricted, by bond indenture agreements for debt service	6,019,362	5,865,661
Unrestricted	54,930,855	48,606,560
Total net position	64,489,743	55,567,712
	$175,148,685	$163,352,618

Combined Statements of Revenues, Expenses and Changes in Net Position

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
Operating revenues	2022	2021
Net patient service revenue	$133,792,587	$119,700,814
Capitation revenue	735,771	617,233
Other operating revenues	3,047,089	2,910,476
Total operating revenues	137,575,447	123,228,523
Operating expenses		
Salaries and wages	46,107,006	42,970,331
Employee benefits	17,042,228	13,451,802
Professional and other fees	12,988,383	11,879,345
Registry and other contract labor	11,654,091	6,491,399
Supplies	19,140,036	17,573,498
Purchased services	11,996,167	11,210,508
Utilities	1,399,014	1,389,737
Building and equipment rent	482,818	490,939
Insurance	1,975,609	2,072,366
Depreciation and amortization	6,743,766	6,332,207
Other operating expenses	4,769,463	3,545,097
Total operating expenses	134,295,581	117,407,229
Operating income (loss)	3,276,866	5,821,294
Nonoperating revenues (expenses)		
District tax revenues	5,265,531	4,978,126
Investment income	667,819	431,674
Interest expense	(2,523,842)	(2,487,204)
Gain (loss) on disposals of property	34,466	(67,530)
Grants and contributions	2,201,191	403,565
Total nonoperating revenues (expenses)	5,645,165	3,258,631
Increase in net position	8,922,031	9,079,925
Net position at beginning of the year	55,567,712	46,487,787
Net position at end of the year	$ 64,489,743	$ 55,567,712

See accompanying notes and auditor's report

Combined Statements of Cash Flows

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
	2022	2021
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	$115,358,241	$123,056,617
Cash received from operations, other than patient services	3,047,089	4,838,866
Cash payments to suppliers and contractors	(59,828,165)	(56,305,328)
Cash payments to employees and benefit programs	(64,163,630)	(57,407,966)
Net cash provided by (used in) operating activities	(5,586,465)	14,182,189
Cash flows from noncapital financing activities:		
District tax revenues	1,183,802	1,196,079
Grants and contributions	2,201,191	403,565
Net cash provided by noncapital financing activities	3,384,993	1,599,644
Cash flows from capital and related financing activities:		
District tax revenues related to capital financing from bonds	4,081,729	3,782,047
Purchase of capital assets, disposals and other asset changes	(17,293,410)	(1,562,114)
Proceeds from debt borrowings	2,995,209	
Principal payments on debt borrowings and premium accretion	(3,311,675)	(1,916,043)
Interest on debt borrowings	(2,523,842)	(2,487,204)
Net cash (used in) capital financing activities	(16,051,989)	(2,183,314)
Cash flows from investing activities:		
Net (purchase) or sale of investments	(1,737,880)	137,766
Interest received from investments	667,819	431,674
Net cash provided by (used in) investing activities	(1,070,061)	569,440
Net increase (decrease) in cash and cash equivalents	(19,323,522)	14,167,959
Cash and cash equivalents at beginning of year	47,567,694	33,399,735
Cash and cash equivalents at end of year	$ 28,244,172	$ 47,567,694

See accompanying notes and auditor's report

Combined Statements of Cash Flows (continued)

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
	2022	2021
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income	$ 3,276,866	$ 5,821,294
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,743,766	6,332,207
Provision for uncollectible accounts	3,484,076	4,780,837
Changes in operating assets and liabilities:		
Patient accounts receivables	(5,371,731)	(3,324,227)
Other receivables	(16,096,904)	1,928,390
Inventories	135,951	(215,560)
Prepaid expenses and deposits	(948,991)	(419,695)
Accounts payable and accrued expenses	(3,699,561)	(1,017,184)
Accrued payroll and related liabilities	(1,014,396)	1,735,031
Estimated third party payor settlements	(1,185,558)	1,281,960
Deferred inflows of resources	8,355,923	
Other long term liabilities	734,094	(2,720,864)
Net cash provided by (used in) operating activities	$ (5,586,465)	$ 14,182,189

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 presenting both hospital operations and the Champion Center operations 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, 2022 and 2021, 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 amount of $1,086,000 and long-term lease receivables in the amount of $7,391,350. The lease receivables are due to GASB 87 and the new lease recording requirements as discussed further in this footnote and in footnote N.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows and Inflows 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. Net amortization was $69,671 and $69,671 for the years ended June 30, 2022 and 2021, respectively.

Deferred inflow of resources are comprised of deferred lease revenues related to both lessee and lessor obligations as defined in Note N arrived at through the implementation of GASB 87.

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, 2022 and 2021 were $2,914,015 and $2,988,772, 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.

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.

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 $7,063,143 and $5,986,719 for the years ended June 30, 2022 and 2021, respectively.

District Tax Revenues: The District receives approximately 5% 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. Those dates are: (1) lien date of January 1for assessment; (2) due dates of November 1 and February 1for receipt of assessed property taxes; and (3) delinquent dates of December 10 and April 10 for non-payment of those property taxes that were previously due by said dates.

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. GASB 87 increases the usefulness of financial statements by requiring recognition of certain operating lease obligations to recognize the inflows of resources based upon the provisions of the lease contracts. The District has adopted GASB 87 effective July 1, 2021 in accordance with the timetable established by GASB 87.

Other new GASB pronouncements recently issued were GASB's 84 (*Fiduciary Activities*) 88 (*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*) 89 (*Accounting for Interest Cost Incurred Before the End of a Construction Period*) and 91 (*Conduit Debt Obligation*) have been analyzed by District management and have been determined to have no impact upon the financial statements.

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, 2022 and 2021, the District had deposits with various financial institutions in the form of operating cash and cash equivalents amounting to $1,273,015 and $3,911,603. 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, 2022, cost reports through June 30, 2018 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, 2022, cost reports through June 30, 2018, 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 summarized by payor are as follows:

	2022	2021
Medicare services	$106,614,853	$ 95,042,845
Medi-Cal services	82,160,718	71,980,071
Commercial insurance and other payors	73,525,327	71,336,912
Gross patient service revenues	262,300,898	238,359,828
Less estimated deductions from revenue	(128,508,311)	(118,659,014)
Net patient service revenues	$133,792,587	$119,700,814

Medicare and Medi-Cal gross patient revenues were approximately 72% and 70% of the District's total gross patient revenues for 2022 and 2021, 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, 2022 and 2021 were as follows:

	2022	2021
Medicare	$ 12,140,397	$ 9,684,025
Medi-Cal	9,068,038	11,597,931
Other third party payors	12,669,255	8,990,901
Self pay and other	1,793,456	1,292,742
Patient accounts receivable, before allowances	35,671,146	31,565,599
Less allowances for deductions from revenue	(24,143,349)	(21,925,457)
Patient accounts receivable, net of allowances	$ 11,527,797	$ 9,640,142

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, 2022 and 2021.

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2022 and 2021 were comprised of the following:

	2022	2021
Receivable from government supplemental programs	$ 24,055,155	$ 9,848,351
Lease receivables - current portion	958,604	
Interest receivable from various investments	62,673	26,499
Employee loans	38,917	39,606
Physician property note receivable	99,448	130,037
Other various receivables	1,058,540	131,940
	$ 26,273,337	$ 10,176,433

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 healthcare providers in the Lompoc area. Substantially all funds raised, except for funds required for operation of the Foundation, are distributed to 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 $12,051 for the years ended June 30, 2022 and 2021, respectively. The Foundation is not considered a component unit of the District.

NOTE G - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2022 and 2021 were comprised of the following:

	2022	2021
Restricted for the following various purposes:		
Cash, cash equivalents and debt securities for board purposes	$ 3,311,304	$ 1,727,123
Cash, cash equivalents and debt securities, in trust agreements	6,019,361	5,865,662
	9,330,665	7,592,785
Less assets limited as to use available for current debt service	(3,781,292)	(3,613,700)
	$ 5,549,373	$ 3,979,085

NOTE H -INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2022 and 2021:

		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-

		Investment Maturities in Years		
As of June 30, 2021	Fair Value	Less than 1	1 to 5	Over 5
Savings and cash equivalents	$ 7,004	$ 7,004		
Local agency investment fund	43,658,132	43,658,132		
Total investments	$ 43,665,136	$ 43,665,136	$ -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. District contributions to the Plan were $1,232,350 and $1,189,467 for the years ended June 30, 2022 and 2021, respectively. Forfeitures for both years were considered minor.

NOTE J - CAPITAL ASSETS

Capital assets as of June 30, 2022 and 2021 were comprised of the following:

	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

	Balance at June 30, 2020	Transfers & Additions	Retirements	Balance at June 30, 2021
Land and land improvements	$ 14,512,740			$ 14,512,740
Buildings and improvements	119,178,455	$ 908,360		120,086,815
Equipment	48,590,666	2,002,741	$ (125,895)	50,467,512
Construction-in-progress	2,746,719	(1,498,368)		1,248,351
Totals at historical cost	185,028,580	1,412,733	(125,895)	186,315,418
Less accumulated depreciation for:				
Land and land improvements	(5,741,966)	(288,717)		(6,030,683)
Buildings and improvements	(50,276,305)	(3,698,356)		(53,974,661)
Equipment	(40,169,048)	(2,112,186)	44,470	(42,236,764)
Total accumulated depreciation	(96,187,319)	(6,099,259)	44,470	(102,242,108)
Capital assets, net	$ 88,841,261	$ (4,686,526)	$ (81,425)	$ 84,073,310

NOTE K - DEBT BORROWINGS

As of June 30, 2022 and 2021, debt borrowings were as follows:

	2022	2021
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:	$ 34,413,225	$ 35,842,819
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:	16,200,000	16,785,000
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:	29,825,000	30,350,000
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:	2,271,990	
Bond premiums	856,633	905,495
	83,566,848	83,883,314
Less current maturities of debt borrowings	(4,237,197)	(2,539,594)
	$ 79,329,651	$ 81,343,720

Future principal maturities for debt borrowings for the next five succeeding years are: $4,237,197 in 2023; $3,706,924 in 2024; $3,169,179 in 2025; $3,402,611 in 2026; and $3,663,767 in 2027.

NOTE L - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2022, the District has recorded $2,324,940 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, 2022 are approximately 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, 2022 and 2021, was $482,818 and $490,939, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2022, 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, 2022 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, 2022, the District expense for worker's compensation was $1,613,830. Workers's compensation for the year ended June 30, 2021, was a credit of $(1,276,076).

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, 2022 and 2021.

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, 2022 and 2021, in terms of services to the poor and benefits to the broader community:

	2022	2021
Benefits for the poor:		
Traditional charity care	$ 7,063,143	$ 5,986,719
Uncompensated care and administrative write-offs	889,972	521,516
Total net charity and uncompensated care	7,963,115	6,508,235
Unpaid Medi-Cal program charges	19,399,498	20,670,324
Total quantifiable benefits for the poor	27,362,613	27,178,559
Benefits for the broader community:		
Unpaid Medicare program charges	68,908,208	59,422,457
Total quantifiable benefits for the broader community	68,908,208	59,422,457
Total quantifiable community benefits	$ 96,270,821	$ 86,601,016

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 lessee and as a lessor.

Lessee: 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 deferred inflows as of June 30, 2022 and 2021 consist of the following:

	2022	2021
Assets:		
Lease receivable - current portion	$ 128,348	$ -0-
Lease receivable - noncurrent portion	329,443	-0-
Total lease receivables	$ 457,791	$ -0-
Deferred Inflows of Resources:		
Deferred inflow of resources - current portion	$ 125,796	$ -0-
Deferred inflow of resources - noncurrent portion	337,964	-0-
Total deferred inflows of resources	$ 463,760	$ -0-

Total operating lease expense under this lease arrangement for the years ended June 30, 2022 and 2021 was $124,092 and $136,617, respectively.

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

Years ending June 30,

2023	$ 140,034
2024	143,535
2025	147,123
2026	62,445
Thereafter	-0-
Total	493,137
Less: interest	(29,377)
Present value of deferred inflow of resources	$ 463,760

The weighted average for the remaining lease term of this operating lease is 3.42 and the weighted average discount rate for this operating leases is 3.5%

NOTE N - LEASES (continued)

Lessor: The District leases the Champion Center to a third party under an operating lease. Lease commencement occurs on the date the District third party takes possession or control of the Champion Center. Original terms for the lease is 10 years. This lease contains an option to extend for another 10 years. The lease also contains an option to terminate the lease at the end of five years, with a 90-day notice and a fee equal to six months rent. For purposes of lease calculations for this operating lease, it is assumed that the termination clause would not be exercised due to the significant penalty associated with the early termination conditions.

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.

Lessor-lease related assets and deferred inflows of resources as of June 30, 2022 and 2021 consist of the following:

	2022	2021
Assets:		
Lease receivable - current portion	$ 830,256	$ -0-
Lease receivable - noncurrent portion	7,061,907	-0-
Total lease assets	$ 7,892,163	$ -0-
Deferred Inflows of Resources:		
Deferred inflows of resources - current portion	$ 830,256	$ -0-
Deferred inflows of resources - noncurrent portion	7,061,907	-0-
Total deferred inflows of resources	$ 7,892,163	$ -0-

Total operating lease revenue under this lease arrangement for the years ended June 30, 2022 and 2021 was $801,741 and $624,020, respectively.

The future minimum rental payments required under operating lease obligations as of June 30, 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,

2023	$ 1,093,248
2024	1,093,248
2025	1,093,248
2026	1,093,248
Thereafter	4,737,404
Total	9,110,396
Less: interest	(1,218,233)
Present value of lease receivable	$ 7,892,163

The weighted average for the remaining lease term of this operating lease is 8.33 and the weighted average discount rate for this operating leases is 3.5%

NOTE O - GRANTS AND CONTRIBUTIONS

Grants and contributions for the years ended June 30, 2022 and 2021 were comprised of the following:

	2022	2021
Donations by outside third parties (unrestricted)	$ 1,612,436	$ 391,514
Foundation donations for hospital operations	100,000	12,051
COVID related grants from federal government	388,755	
	$ 2,101,191	$ 403,565

NOTE P - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the combined financial statements through September 22, 2022, the date the combined financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

SUPPLEMENTARY SCHEDULES

Combining Statements of Net Position

LOMPOC VALLEY MEDICAL CENTER

June 30, 2022

	Hospital	Champion Center	Eliminations	Combined Total
Assets				
Current assets:				
Cash and cash equivalents	$ 28,244,172			$ 28,244,172
Assets limited as to use	2,953,044	$ 828,248		3,781,292
Patient accounts receivable	11,527,797			11,527,797
Other receivables	25,443,081	830,256		26,273,337
Inventories	1,450,450			1,450,450
Prepaid expenses and deposits	2,313,722			2,313,722
Total current assets	71,932,266	1,658,504		73,590,770
Assets limited as to use	5,016,494	532,879		5,549,373
Capital assets, net	70,966,730	15,283,011		86,249,741
Other assets	1,415,443	7,061,907		8,477,350
Total assets	149,330,933	24,536,301		173,867,234
Deferred outflows of resources	276,451	1,005,000		1,281,451
	$149,607,384	$ 25,541,301		$175,148,685
Liabilities				
Current liabilities:				
Current debt maturities	$ 3,652,197	$ 585,000		$ 4,237,197
Accounts payable	8,915,398	233,248		9,148,646
Accrued payroll	6,177,620			6,177,620
Estimated settlements, net	1,173,263			1,173,263
Total current liabilities	19,918,478	818,248		20,736,726
Other long-term liabilities	2,236,642			2,236,642
Debt borrowings, less current	63,313,074	16,016,577		79,329,651
	85,468,194	16,834,825		102,303,019
Deferred inflows of resources	463,760	7,892,163		8,355,923
Net Position				
Invested in capital assets	4,273,092	(733,566)		3,539,526
Restricted for debt service	4,658,235	1,361,127		6,019,362
Unrestricted (deficit)	54,744,103	186,752		54,930,855
	63,675,430	814,313		64,489,743
	$149,607,384	$ 25,541,301		$175,148,685

Combining Statement of Revenues, Expenses and Changes in Net Position

LOMPOC VALLEY MEDICAL CENTER

June 30, 2022

	Hospital	Champion Center	Eliminations	Combined Total
Operating revenues				
Net patient service revenues	$133,792,587			$133,792,587
Capitation revenue	735,771			735,771
Other operating revenues	2,245,348	$ 801,741		3,047,089
Total operating revenues	136,773,706	801,741		137,575,447
Operating expenses				
Salaries and wages	46,107,006			46,107,006
Employee benefits	17,042,228			17,042,228
Professional and other fees	12,988,383			12,988,383
Registry	11,654,091			11,654,091
Supplies	19,140,036			19,140,036
Purchased services	11,994,728	1,439		11,996,167
Utilities	1,399,014			1,399,014
Building and equipment rent	482,818			482,818
Insurance	1,956,313	19,296		1,975,609
Depreciation and amortization	5,703,627	1,040,139		6,743,766
Other operating expenses	4,496,604	272,859		4,769,463
Total operating expenses	132,964,848	1,333,733		134,298,581
Operating income (loss)	3,808,858	(531,992)		3,276,866
Nonoperating				
District tax revenues	5,265,531			5,265,531
Investment income	376,312	291,507		667,819
Interest expense	(2,057,342)	(466,500)		(2,523,842)
Gain on disposals of property	34,466			34,466
Contributions	2,201,191			2,201,191
Total nonoperating	5,820,158	(174,993)		5,645,165
Increase (decrease) in net position	$ 9,629,016	$ (706,985)		$ 8,922,031

Earnings Before Interest, Depreciation and Amortization (EBIDA)

LOMPOC VALLEY MEDICAL CENTER

	Year Ended June 30	
Operating revenues	2022	2021
Net patient service revenue	$133,792,587	$119,700,814
Capitation revenue	735,771	617,233
Other operating revenues	3,047,089	2,910,476
Total operating revenues	137,575,447	123,228,523
Operating expenses		
Salaries and wages	46,107,006	42,970,331
Employee benefits	17,042,228	13,451,802
Professional and other fees	12,988,383	11,879,345
Registry	11,654,091	6,491,399
Supplies	19,140,036	17,573,498
Purchased services	11,996,167	11,210,508
Utilities	1,399,014	1,389,737
Building and equipment rent	482,818	490,939
Insurance	1,975,609	2,072,366
Other operating expenses	4,769,463	3,545,097
Total operating expenses w/o interest, depreciation & amortization	127,554,815	111,075,022
Earnings before interest, depreciation and amortization	$ 10,020,632	$ 12,153,501

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 business-type activities of the Lompoc Valley Medical Center, a district hospital (the District) as of and for the years ended June 30, 2022 and 2021, 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 September 22, 2022.

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
September 22, 2022