

SIERRA KINGS HEALTH CARE DISTRICT

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sierra Kings Health Care District:

We have audited the accompanying financial statements of the business-type activities of Sierra Kings Health Care District (the District), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Sierra Kings Health Care District as of June 30, 2018 and 2017, and the respective change 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.

Other Matters

Required Supplementary Information

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

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
November 26, 2018

**SIERRA KINGS HEALTH CARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

The following narrative provides an overview and analysis of the financial activities of the Sierra Kings Health Care District (the District) for the years ended June 30, 2018 and 2017. It is provided in order to enhance the information in the financial audit and should be reviewed together with that report.

INTRODUCTION

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

The District no longer has ongoing business operations. Its primary source of unrestricted funds is the \$931,241 annual lease payments from Adventist Health and \$429,041 of ad valorem property taxes. With the finalization of the bankruptcy the District has started the process of exploring how it might serve unmet health needs of the community that does not involve directly providing acute and primary clinical care.

The ongoing expenses of the District consist of costs associated with the general administration of the District, legal fees, and other government reconciliation reporting. During the year ended June 30, 2018, these costs remained the constant with those in 2017. There are recurring costs for certain required insurance coverage and principal and interest payments on debt associated with leased property as reflected in the Statement of Revenues, Expenses and Changes in Net Assets.

FINANCIAL HIGHLIGHTS

- Operating revenues were \$2.9 million, a decrease of 13.3% from the prior year.
- Operating expenses were \$1.1 million, an increase of .2% from the prior year.
- Total assets are \$31.9 million, a decrease of 2.7% from the prior year.
- Total liabilities are \$26.9 million, a decrease of 6.2% from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

- The **Statements of Net Position** present information on the District's assets, deferred outflows, liabilities and deferred inflows, the difference between the two representing net position, or equity.
- The **Statements of Revenues, Expenses, and Changes in Net Position** present information showing total revenues versus total expenses and how the District's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., reimbursable ongoing project expenses).
- The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of the District's operations and significant accounting policies as well as clarify unique financial information.

The assets, liabilities, revenues, and expenses are reported on a full-accrual basis.

Analysis of Overall Financial Position and Results of Operation

Statements of Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
Current assets	\$ 4,699,227	\$ 4,820,868	-2.5%
Non-current assets	<u>27,228,226</u>	<u>28,000,752</u>	<u>-2.8%</u>
Total assets	<u>\$ 31,927,453</u>	<u>\$ 32,821,620</u>	<u>-2.7%</u>
Current liabilities	\$ 1,971,417	\$ 2,869,482	-31.3%
Non-current liabilities	<u>24,910,577</u>	<u>25,798,001</u>	<u>-3.4%</u>
Total liabilities	<u>26,881,994</u>	<u>28,667,483</u>	<u>-6.2%</u>
Net position:			
Net investment (deficit) in capital assets	(498,490)	(556,752)	-10.5%
Restricted net position	4,036,407	4,677,147	-13.7%
Unrestricted net position (deficit)	<u>1,507,542</u>	<u>33,742</u>	<u>4367.9%</u>
Net position	<u>5,045,459</u>	<u>4,154,137</u>	<u>21.5%</u>
Total liabilities and net position	<u>\$ 31,927,453</u>	<u>\$ 32,821,620</u>	<u>-2.7%</u>
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Current assets	\$ 4,820,868	\$ 4,102,403	17.5%
Non-current assets	<u>28,000,752</u>	<u>28,789,446</u>	<u>-2.7%</u>
Total assets	<u>\$ 32,821,620</u>	<u>\$ 32,891,849</u>	<u>-0.2%</u>
Current liabilities	\$ 2,869,482	\$ 2,574,334	11.5%
Non-current liabilities	<u>25,798,001</u>	<u>27,458,193</u>	<u>-6.0%</u>
Total liabilities	<u>28,667,483</u>	<u>30,032,527</u>	<u>-4.5%</u>
Net position:			
Net investment (deficit) in capital assets	(556,752)	(1,271,668)	-56.2%
Restricted net position	4,677,147	4,259,668	9.8%
Unrestricted net position (deficit)	<u>33,742</u>	<u>(128,678)</u>	<u>-126.2%</u>
Net position	<u>4,154,137</u>	<u>2,859,322</u>	<u>45.3%</u>
Total liabilities and net position	<u>\$ 32,821,620</u>	<u>\$ 32,891,849</u>	<u>-0.2%</u>

Assets

Total assets decreased \$894,167 resulting from a decrease of \$772,526 in net capital assets.

The majority of the District's investments are held in investment accounts with Multi-Bank Securities, Inc. and include the restricted bond funds. Cash is held with Bank of the Sierra and with the County of Fresno Treasury. Cash held by the County of Fresno Treasury is to be used for debt service payments.

Revenues and Expenses

Total revenues, operating and non-operating, decreased 12.7% from the prior year and total expenses decreased 1.1%. This resulted in an increase to net position of \$891,322.

Revenues consist almost entirely of district tax assessments and rent and lease revenue. District tax assessments decreased by 18.0% mainly due to a decrease in amounts assessed for debt service payments. Total expenses decreased by 1.1% from the prior year due to less interest expenses incurred in the fiscal year ended June 30, 2018.

Statements of Revenue, Expenses, and Changes in Net Position

	Fiscal Year Ended <u>June 30, 2018</u>	Fiscal Year Ended <u>June 30, 2017</u>	Percentage <u>Change</u>
Operating revenues:			
District taxes	\$ 1,780,901	\$ 2,406,101	-26.0%
Rent and lease revenue	942,189	914,058	3.1%
Other revenue	<u>156,777</u>	<u>1,270</u>	<u>12244.6%</u>
Total operating revenues	<u>2,879,867</u>	<u>3,321,429</u>	<u>-13.3%</u>
Operating expenditures:			
Depreciation expense	941,130	955,218	-1.5%
General and administrative	<u>182,400</u>	<u>165,602</u>	<u>10.1%</u>
Total operating expenditures	<u>1,123,530</u>	<u>1,120,820</u>	<u>0.2%</u>
Operating income	<u>1,756,337</u>	<u>2,200,609</u>	<u>-20.2%</u>
Non-operating revenues (expenses):			
Interest expense	(906,203)	(930,567)	-2.6%
Other revenues (expenses)	<u>41,188</u>	<u>24,773</u>	<u>66.3%</u>
Total non-operating revenues (expenses)	<u>(865,015)</u>	<u>(905,794)</u>	<u>-4.5%</u>
Change in net position	891,322	1,294,815	-31.2%
Net position at beginning of year	<u>4,154,137</u>	<u>2,859,322</u>	<u>45.3%</u>
Net position at end of year	<u>\$ 5,045,459</u>	<u>\$ 4,154,137</u>	<u>21.5%</u>

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

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	Percentage Change
Operating revenues:			
District taxes	\$ 2,406,101	\$ 2,110,524	14.0%
Rent and lease revenue	914,058	875,148	4.4%
Other revenue	<u>1,270</u>	<u>159,516</u>	-99.2%
Total operating revenues	<u>3,321,429</u>	<u>3,145,188</u>	5.6%
Operating expenditures:			
Depreciation expense	955,218	980,789	-2.6%
General and administrative	<u>165,602</u>	<u>452,713</u>	-63.4%
Total operating expenditures	<u>1,120,820</u>	<u>1,433,502</u>	-21.8%
Operating income	<u>2,200,609</u>	<u>1,711,686</u>	28.6%
Non-operating revenues (expenses):			
Interest expense	(930,567)	(1,118,782)	-16.8%
Other revenues (expenses)	<u>24,773</u>	<u>(40,919)</u>	-160.5%
Total non-operating revenues (expenses)	<u>(905,794)</u>	<u>(1,159,701)</u>	-21.9%
Change in net position	1,294,815	551,985	134.6%
Net position at beginning of year	<u>2,859,322</u>	<u>2,566,871</u>	11.4%
Net position at end of year	<u>\$ 4,154,137</u>	<u>\$ 3,118,856</u>	<u>33.2%</u>

General and Administrative Expenses

Total general and administrative expenses increased 10.1% from the prior year. This increase is primarily due to an increase in outside services provided. Total general and administrative expenses represent 9.0% of the total expenses incurred by the District during the fiscal year ended June 30, 2018.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: The District's investment in capital assets as of June 30, 2018, is \$24.8 million (net of accumulated depreciation), a decrease of \$.7 million from June 30, 2017. This investment in capital assets includes land, construction-in-progress, parking lots and land improvements, buildings and improvements, and equipment.

Major capital asset additions this year include the following:

Construction-in-progress	\$245,580
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During the year, the District capitalized project expenses related to the HVAC project and interest related to the 2009 bond funds received which increased the construction-in-progress balance.

Capital Assets

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017	Percentage Change
Land	\$ 576,215	\$ 576,215	0.0%
Construction-in-progress	1,963,085	1,717,505	14.3%
Parking lot and land improvements	1,300,131	1,300,131	0.0%
Buildings and improvements	33,369,043	33,369,043	0.0%
Equipment	542,323	542,323	0.0%
Total capital assets	\$ 37,750,797	\$ 37,505,217	0.7%
	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	Percentage Change
Land	\$ 576,215	\$ 576,215	0.0%
Construction-in-progress	1,717,505	1,487,248	15.5%
Parking lot and land improvements	1,300,131	1,300,131	0.0%
Buildings and improvements	33,369,043	33,369,043	0.0%
Equipment	542,323	542,323	0.0%
Total capital assets	\$ 37,505,217	\$ 37,274,960	0.6%

Long-Term Debt: The District's current and non-current portions of long-term debt as of June 30, 2018, was \$25.3 million.

Long-Term Debt

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017	Percentage Change
2015 GO Refunding Bond	\$ 23,650,000	\$ 24,290,000	-2.6%
2002 Capital Appreciation Bonds	66,744	104,664	-36.2%
Bond Premiums	1,575,036	1,650,928	-4.6%
Total long-term debt	\$ 25,291,780	\$ 26,045,592	-2.9%
	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	Percentage Change
Note Payable - USDA	\$ -	\$ 909,920	-100.0%
2015 GO Refunding Bond	24,290,000	24,705,000	-1.7%
2002 Capital Appreciation Bonds	104,664	143,815	-27.2%
Bond Premiums	1,650,928	1,726,733	-4.4%
Total long-term debt	\$ 26,045,592	\$ 27,485,468	-5.2%

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

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

In developing the budget for the 2018-2019 fiscal year, the staff and Board of Directors budgeted for a decrease in administrative and legal fees. There was a slight increase in revenues to allow for the CPI increase in the Adventist Health lease and for additional grant funding.

The Board approved a budget for 2018-2019 on May 22, 2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

**SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents	\$ 3,050,029	\$ 2,633,051
Cash restricted for use in debt service	1,601,471	2,165,235
Property taxes receivable	<u>47,727</u>	<u>22,582</u>
Total current assets	4,699,227	4,820,868
Restricted investments for use in debt service	2,434,936	2,511,912
Capital assets, not being depreciated	2,539,300	2,293,720
Capital assets, net of accumulated depreciation	<u>22,253,990</u>	<u>23,195,120</u>
Total assets	<u>\$ 31,927,453</u>	<u>\$ 32,821,620</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 19,837	\$ 33,958
Accrued interest	446,937	457,604
Other payables	804,069	1,700,000
Current maturities of debt borrowings	776,466	753,812
Current maturities of other noncurrent liabilities	<u>164,426</u>	<u>152,080</u>
Total current liabilities	2,211,735	3,097,454
Debt borrowings	24,515,314	25,291,780
Other noncurrent liabilities	<u>154,945</u>	<u>278,249</u>
Total liabilities	<u>26,881,994</u>	<u>28,667,483</u>
Net position:		
Net investment (deficit) in capital assets	(498,490)	(556,752)
Restricted net position	4,036,407	4,677,147
Unrestricted net position	<u>1,507,542</u>	<u>33,742</u>
Total net position	<u>5,045,459</u>	<u>4,154,137</u>
Total liabilities and net position	<u>\$ 31,927,453</u>	<u>\$ 32,821,620</u>

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

**SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
Operating revenues:		
District taxes	\$ 429,041	\$ 414,146
District taxes - restricted	1,351,860	1,991,955
Rent and lease revenue	942,189	914,058
Other revenue	<u>156,777</u>	<u>1,270</u>
 Total operating revenues	 <u>2,879,867</u>	 <u>3,321,429</u>
 Operating expenditures:		
Administrative fees	74,972	87,833
Depreciation expense	941,130	955,218
Insurance	13,759	16,548
Professional fees	26,373	25,284
Other expenses	<u>67,296</u>	<u>35,937</u>
 Total operating expenditures	 <u>1,123,530</u>	 <u>1,120,820</u>
 Operating income	 <u>1,756,337</u>	 <u>2,200,609</u>
 Non-operating revenues (expenses)		
Interest income	6,418	5,850
Interest expense	(906,203)	(930,567)
Bond capital accretion and premium amortization	<u>34,770</u>	<u>18,923</u>
 Total non-operating revenues (expenses)	 <u>(865,015)</u>	 <u>(905,794)</u>
 Change in net position	 891,322	 1,294,815
 Net position at beginning of year	 <u>4,154,137</u>	 <u>2,859,322</u>
 Net position at end of year	 <u>\$ 5,045,459</u>	 <u>\$ 4,154,137</u>

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

**SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
Cash flows from operating activities:		
Cash received from operations	\$ 1,073,821	\$ 944,163
Other operating cash receipts	884,970	2,406,101
Cash payments to suppliers and contractors	<u>(196,521)</u>	<u>(156,616)</u>
Net cash provided by operating activities	<u>1,762,270</u>	<u>3,193,648</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(59,439)	(63,305)
Principal payments on debt borrowings	(640,000)	(1,364,071)
Interest payments on debt borrowings	<u>(1,293,011)</u>	<u>(1,085,445)</u>
Net cash used by capital and related financing activities	<u>(1,992,450)</u>	<u>(2,512,821)</u>
Cash flows from investing activities:		
Interest received	6,418	5,850
Net (purchase) sales of restricted investments	<u>76,976</u>	<u>63,734</u>
Net cash provided by investing activities	<u>83,394</u>	<u>69,584</u>
Net change in cash and cash equivalents	(146,786)	750,411
Cash and cash equivalents at beginning of year	<u>4,798,286</u>	<u>4,047,875</u>
Cash and cash equivalents at end of year	<u>\$ 4,651,500</u>	<u>\$ 4,798,286</u>
Reconciliation of cash balances:		
Cash and cash equivalents	\$ 3,050,029	\$ 2,633,051
Cash restricted for use in debt service	<u>1,601,471</u>	<u>2,165,235</u>
Total cash and cash equivalents at end of year	<u>\$ 4,651,500</u>	<u>\$ 4,798,286</u>

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

**SIERRA KINGS HEALTH CARE DISTRICT
STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 1,756,337</u>	<u>\$ 2,200,609</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	941,130	955,218
Changes in assets and liabilities:		
(Increase) decrease in:		
Property taxes receivable	(25,145)	28,835
Prepaid expenses and deposits	-	3,111
Increase (decrease) in:		
Accounts payable	(14,121)	5,875
Other payables	<u>(895,931)</u>	<u>-</u>
Total adjustments	<u>5,933</u>	<u>993,039</u>
Net cash provided by operating activities	<u>\$ 1,762,270</u>	<u>\$ 3,193,648</u>

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

**SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting entity

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

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

SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Cash and cash equivalents

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

Investments

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

Restricted assets

Restricted assets 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 for use in debt service agreements. Restricted assets consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fair value of financial instruments

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

Use of estimates

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

Capitalized costs

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of those assets. Interest capitalized during the years ended June 30, 2018 and 2017, net of related interest income and investment gains, was \$186,142 and \$166,953, respectively.

SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Capital assets

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

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

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

Net position

The proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment (deficit) in capital assets, restricted and unrestricted.

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

Operating revenues and expenses

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

District tax revenues

Property taxes are levied by Fresno County on the District's behalf and are utilized to support operations and meet required debt service agreements. The amount of property tax received is dependent upon the assessed real property valuations as determined by the Fresno County Assessor. Property taxes are due in two equal installments on November 1 and February 1 each year and are delinquent if not paid by December 10 and April 10, respectively. The District received approximately 62% and 72% of its financial support from property taxes for the years ended June 30, 2018 and 2017, respectively.

SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Governmental accounting standards update

During the year ended June 30, 2018, the District implemented the following standards which resulted in no impact on the District's financials:

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

GASB Statement No. 82 – *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB Statement No. 85 – *Omnibus 2017*. The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

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

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88 – *Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – *Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

**SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Subsequent events

In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through November 26, 2018, which is the date the financial statements were available to be issued.

NOTE 2 - CASH AND CASH EQUIVALENTS:

At June 30, 2018 and 2017, the District had deposits invested in various financial institutions in the form of cash and cash equivalents amounting to \$2,633,051 and \$2,363,853, respectively. All of these funds were held in deposits that were collateralized in accordance with the California Government Code and are federally insured.

Under the California Government Code, a financial institution is required to secure deposits in excess of \$250,000 made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The collateral is held by the pledging financial institution's trust department and is considered held in the District's name.

NOTE 3 - INVESTMENTS:

At June 30, 2018 and 2017, investments measured at fair value on a recurring basis, all of which were considered restricted under bond indenture agreements or under Board of Directors designation, consisted of the following:

Description	2018	2017
Fixed income holdings	\$ 2,431,191	\$ 2,498,062
Cash deposits	<u>3,745</u>	<u>13,850</u>
	<u>\$ 2,434,936</u>	<u>\$ 2,511,912</u>

The District's investment policy allows for various forms of investments generally set to mature from less than 1 year to 15 years. At June 30, 2018 and 2017, fixed income holdings consisted of U.S. corporations and U.S. bank holding companies. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk.

**SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 3 - INVESTMENTS, Continued:

The District's investment maturities were as follows at June 30, 2018 and 2017:

June 30, 2018	<u>Fair Value</u>	Investment Maturities in Years		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Funds held in				
County treasury	\$1,601,471	\$1,601,471	\$ -	\$ -
Fixed income holdings	2,431,191	-	2,124,027	307,164
Cash deposits	3,745	3,745	-	-
Total investments	<u>\$4,036,407</u>	<u>\$1,605,216</u>	<u>\$2,124,027</u>	<u>\$ 307,164</u>

June 30, 2017	<u>Fair Value</u>	Investment Maturities in Years		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Funds held in				
County treasury	\$2,165,235	\$2,165,235	\$ -	\$ -
Fixed income holdings	2,498,062	-	1,915,053	583,009
Cash deposits	13,850	13,850	-	-
Total investments	<u>\$4,677,147</u>	<u>\$2,179,085</u>	<u>\$1,915,053</u>	<u>\$ 583,009</u>

Interest Rate Risk: 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. The District manages its exposure to interest rate risk by purchasing a combination of shorter-term and longer-term investments and timing cash flows from maturities to provide cash flow and liquidity needed to support operations.

Credit Risk: The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment policy for corporate bonds and notes is to invest in companies that have an "A" or higher rating from Standard & Poor's or Moody's Investor Service.

Custodial Credit Risk: The risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of its investment that is in the possession of another party. The District's investments are generally held by broker-dealers or bank's trust departments used by the District to purchase securities.

Concentration of Credit Risk: The risk of loss attributed to the magnitude of the District's investment in any one issuer. The District's investment policy does not allow for investments over 20% of the District's funds in any one obligation except for U.S. government securities or government agency obligations or money market funds.

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

**SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 4 - FAIR VALUE MEASUREMENTS:

The District applies generally accepted accounting principles for fair value measurements of financial assets and liabilities. These accounting principles define fair value and establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The District uses appropriate valuation techniques to determine value based on inputs available.

When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The following description summarizes the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of net position.

The three levels of inputs used to measure fair value are as follows:

Level 1 – Values measured using quoted prices in active markets for identical investments. The fair value of these financial instruments and investments is based on quoted market prices or dealer quotes in active markets. The fair value of the District’s investments were measured using quoted market prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. The District did not have any input into the fair value of Level 2 investments. The District did not have any assets reported at fair value with Level 2 inputs for the years ended June 30, 2018 and 2017.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The District did not have any assets reported at fair value with Level 3 inputs for the years ended June 30, 2018 and 2017.

The table below presents the level within the fair value hierarchy at which investments are measured at June 30, 2018 and 2017:

Fair Value Measurements on a Recurring Basis				
June 30, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held in				
County treasury	\$1,601,471	\$ -	\$ -	\$1,601,471
Fixed income holdings	2,431,191	-	-	2,431,191
Cash deposits	3,745	-	-	3,745
Total investments	<u>\$4,036,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,036,407</u>

Fair Value Measurements on a Recurring Basis				
June 30, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held in				
County treasury	\$2,165,235	\$ -	\$ -	\$2,165,235
Fixed income holdings	2,498,062	-	-	2,498,062
Cash deposits	13,850	-	-	13,850
Total investments	<u>\$4,677,147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,677,147</u>

**SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 5 - CAPITAL ASSETS:

Capital assets at June 30, 2018 and 2017 were comprised of the following:

	Balances June 30, 2017	Transfers and Additions	Sales and Retirements	Balances June 30, 2018
Capital assets not being depreciated:				
Land	\$ 576,215	\$ -	\$ -	\$ 576,215
Construction-in-progress	1,717,505	245,580	-	1,963,085
Total capital assets not being depreciated	<u>2,293,720</u>	<u>245,580</u>	<u>-</u>	<u>2,539,300</u>
Capital assets being depreciated:				
Parking lot and land improvements	1,300,131	-	-	1,300,131
Buildings and improvements	33,369,043	-	-	33,369,043
Equipment	542,323	-	-	542,323
Total capital assets being depreciated	<u>35,211,497</u>	<u>-</u>	<u>-</u>	<u>35,211,497</u>
Less accumulated depreciation:				
Parking lot and land improvements	(802,976)	(41,295)	-	(844,271)
Building and improvements	(10,739,507)	(889,655)	-	(11,629,162)
Equipment	(473,894)	(10,180)	-	(484,074)
Total accumulated depreciation	<u>(12,016,377)</u>	<u>(941,130)</u>	<u>-</u>	<u>(12,957,507)</u>
Total capital assets being depreciated, net	<u>23,195,120</u>	<u>(941,130)</u>	<u>-</u>	<u>22,253,990</u>
Total capital assets, net	<u>\$25,488,840</u>	<u>\$ (695,550)</u>	<u>\$ -</u>	<u>\$24,793,290</u>
	Balances June 30, 2016	Transfers and Additions	Sales and Retirements	Balances June 30, 2017
Capital assets not being depreciated:				
Land	\$ 576,215	\$ -	\$ -	\$ 576,215
Construction-in-progress	1,487,248	230,257	-	1,717,505
Total capital assets not being depreciated	<u>2,063,463</u>	<u>230,257</u>	<u>-</u>	<u>2,293,720</u>
Capital assets being depreciated:				
Parking lot and land improvements	1,300,131	-	-	1,300,131
Buildings and improvements	33,369,043	-	-	33,369,043
Equipment	542,323	-	-	542,323
Total capital assets being depreciated	<u>35,211,497</u>	<u>-</u>	<u>-</u>	<u>35,211,497</u>
Less accumulated depreciation:				
Parking lot and land improvements	(761,006)	(41,970)	-	(802,976)
Building and improvements	(9,844,203)	(895,304)	-	(10,739,507)
Equipment	(455,951)	(17,943)	-	(473,894)
Total accumulated depreciation	<u>(11,061,160)</u>	<u>(955,217)</u>	<u>-</u>	<u>(12,016,377)</u>
Total capital assets being depreciated, net	<u>24,150,337</u>	<u>(955,217)</u>	<u>-</u>	<u>23,195,120</u>
Total capital assets, net	<u>\$26,213,800</u>	<u>\$ (724,960)</u>	<u>\$ -</u>	<u>\$25,488,840</u>

Depreciation expense for the years ending June 30, 2018 and 2017 amounted to \$941,130 and \$955,218, respectively.

**SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 6 - DEBT BORROWINGS:

	2018	2017
Sierra Kings Health Care District General Obligation Refunding Bonds, Series 2015, due August 1, 2039, in the original amount of \$24,705,000. Annual installments of principal and sinking fund payments from \$415,000 to \$1,675,000 beginning August 1, 2016 and continuing until the note matures on August 1, 2039. Semi-annual interest payments are due beginning February 1, 2016 and continuing until the note matures on August 1, 2039. Interest rates range from 3.00% to 5.00% per annum.	\$23,650,000	\$24,290,000
Capital appreciation bonds associated with the Sierra Kings Health Care District General Obligation Bonds, Series 2002.	66,744	104,664
Bond premiums, net of accumulated accretion.	<u>1,575,036</u>	<u>1,650,928</u>
	25,291,780	26,045,592
Less current portion	<u>776,466</u>	<u>753,812</u>
	<u>\$24,515,314</u>	<u>\$25,291,780</u>

Debt refunding and defeasance of debt:

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

On December 1, 2015 the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable escrow account to provide for the redemption price of the Series 2002 Current Interest Bonds and the Series 2007 Bonds, and to advance refund the Series 2009 Bonds to provide for all future debt service payments through August 1, 2019, at which time they will be redeemed. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the District's financial statements. The District had a cash flow difference and an economic loss of approximately \$796,966 as a result of the refunding at June 30, 2016. At June 30, 2018 and 2017, \$3,740,000 and \$3,810,000 of bonds outstanding are considered defeased, respectively.

**SIERRA KINGS HEALTH CARE DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 6 - DEBT BORROWINGS, Continued:

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

Years ending June 30:	<u>Principal</u>	<u>Estimated Interest Payments</u>	<u>Estimated Total Debt Service</u>
2019	\$ 776,466	\$ 1,059,350	\$ 1,835,816
2020	802,062	1,032,150	1,834,212
2021	795,892	1,007,450	1,803,342
2022	820,892	981,750	1,802,642
2023	850,892	951,350	1,802,242
2024-2028	4,724,460	4,261,575	8,986,035
2029-2033	5,827,975	3,107,125	8,935,100
2034-2038	7,312,035	1,561,375	8,873,410
2039-2040	3,381,106	166,200	3,547,306
	<u>\$ 25,291,780</u>	<u>\$ 14,128,325</u>	<u>\$ 39,420,105</u>

Interest expense relating to the above debt borrowings, net of amounts capitalized, was \$906,203 and \$930,567 for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 - COMMITMENTS AND CONTINGENCIES:

As of June 30, 2018 and 2017, the District had recorded \$1,963,085 and \$1,717,505, respectively, as construction-in-progress representing cost capitalized for various remodeling, major repair, and expansion projects. The District capitalized related interest expense, net of interest earnings on capital related funding, to the District expansion project. Estimated cost to complete all projects as of June 30, 2018 are approximately \$2.4 million.

The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consulting with legal counsel, management estimates that matters existing as of June 30, 2018 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

NOTE 8 - LEASING ARRANGEMENT:

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