



REPORTS OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

KERN COUNTY HOSPITAL AUTHORITY

June 30, 2022 and 2021

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Kern County Hospital Authority Management's Discussion and Analysis

The discussion and analysis of the financial performance of Kern County Hospital Authority (the "Authority" or "Kern Medical") provides an overall review of the financial activities for the years ended June 30, 2022, 2021, and 2020. The intent of this discussion and analysis is to provide further information about Kern Medical's financial performance as a whole. Readers should also review the financial statements and the accompanying notes to the financial statements to enhance their understanding of Kern Medical's financial performance.

Summary of Organization and Business

The County of Kern ("County") established the Kern County Hospital Authority ("Hospital Authority") as a public entity separate from the County to operate Kern Medical Center ("Kern Medical"), a highly specialized tertiary referral center, an academic institution, and a designated public hospital for Kern County. The County transferred the ownership and operations of Kern Medical effective July 1, 2016. The Hospital Authority provides an organizational and operational structure that facilitates and enhances Kern Medical's ability to function with flexibility, responsiveness, and innovation. The creation of an independent Hospital Authority also provides maintenance, operation, management, and control of Kern Medical and its related health care resources in a manner consistent with the County's obligations under Section 17000 of the Welfare and Institutions Code. Further, the Hospital Authority offers an approach to achieve these objectives in a manner that ensures the continued viability of Kern Medical, and it constitutes an ongoing material benefit to the County and its residents. The Hospital Authority is not governed by, or subject to the County's Civil Service Commission regulation or other operational rules of the County, including, but not limited to, those relating to personnel and procurement.

Key Performance Indicators

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Admissions (excluding births)	9,781	9,763	9,213
Discharges	12,652	10,108	11,085
Births	2,166	2,331	2,241
Patient days (excluding newborns)	61,095	52,567	47,427
Average daily census	167	144	130

Overview of the Financial Statements

The financial statements of Kern Medical report information about Kern Medical's use of accounting methods, which are similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities and include the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. In addition, the accompanying notes are an integral part of these financial statements.

The statement of net position includes all of Kern Medical's assets, liabilities, and deferred inflows and outflows and provides information about the nature and amounts of investments in resources (assets) and obligations to Kern Medical's creditors (liabilities). It also provides the basis for evaluating the capital structure of Kern Medical and assessing the liquidity and financial flexibility of Kern Medical.

Kern County Hospital Authority Management's Discussion and Analysis

The statement of revenues, expenses, and changes in net position reports all of the revenues and expenses during the time period indicated. This statement measures the success of Kern Medical's operations over the past year and can be used to determine whether Kern Medical has successfully recovered all of its costs through its charges at established rates and other revenues. Over time, increases or decreases in net position may serve as a unique indicator of whether or not the financial position of Kern Medical is improving or deteriorating.

The statement of cash flows reports cash receipts; cash payments; changes in cash resulting from operations, investing, and financing activities; and the changes in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about Kern Medical's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

**Kern County Hospital Authority
Management's Discussion and Analysis**

Financial Analysis

Condensed Statements of Net Position

	June 30,		
	2022	As restated 2021	2020
Current assets	\$ 331,634,272	\$ 230,900,729	\$ 217,002,867
Right-to-use assets	7,964,725	9,185,312	-
Capital assets	95,971,821	98,236,860	97,097,360
Total assets	435,570,818	338,322,901	314,100,227
Deferred outflows of resources	99,396,391	121,444,788	82,017,395
Total assets and deferred outflows of resources	<u>\$ 534,967,209</u>	<u>\$ 459,767,689</u>	<u>\$ 396,117,622</u>
Current liabilities	\$ 60,105,009	\$ 78,474,131	\$ 108,076,602
Noncurrent liabilities	335,595,135	431,273,959	373,161,809
Total liabilities	395,700,144	509,748,090	481,238,411
Deferred inflows of resources	79,254,798	30,132,624	45,398,646
Net investment in capital assets	95,971,821	98,236,860	97,097,360
Unrestricted	(35,959,554)	(178,349,885)	(227,616,795)
Total net position	60,012,267	(80,113,025)	(130,519,435)
Total liabilities, deferred inflows of resources, and net position	<u>\$ 534,967,209</u>	<u>\$ 459,767,689</u>	<u>\$ 396,117,622</u>

Statements of Net Position Highlights:

Changes from fiscal 2021 to 2022

Current assets – Current assets increased \$100.7 million, or 44%, from fiscal year 2021 to 2022, mainly due to an increase in receivables from government agencies. The government receivables balance increased \$92.5 million, or 96%, from fiscal year 2021 to 2022. Kern Medical is entitled to receive supplemental funding from various state and federal government sources based on patients served. The increase in receivables from government agencies is due in large part to the timing of when state and federal government agencies issue funds to healthcare providers. Some supplemental programs cross over fiscal and calendar years. This can result in large fluctuations in the receivables balance at fiscal year-end.

Kern County Hospital Authority Management's Discussion and Analysis

Deferred outflows of resources – In connection with Governmental Accounting Standards Board (“GASB”) No. 68 and GASB No. 75, Kern Medical reported a \$22.0 million, or 18%, decrease in deferred outflows of resources related to changes in actuarial assumptions, net differences between projected and actual earnings on pension plan investments, and contributions made subsequent to the measurement date. The deferred outflows of resources reported are \$99.4 million as of June 30, 2022, compared to a balance of \$121.4 million as of June 30, 2021.

Current liabilities – Current liabilities decreased from fiscal year 2021 by \$18.4 million, or 23%. The decrease is mainly due to a \$15.9 million decrease in accounts payable. The accounts payable balance reported is \$32.7 million as of June 30, 2022, compared to a balance of \$48.6 million as of June 30, 2021.

Noncurrent liabilities – Noncurrent liabilities decreased from fiscal year 2021 by \$95.7 million, or 22%. The decrease is mainly due to a decrease in the net pension liability.

Deferred inflows of resources – In connection with GASB No. 68 and GASB No. 75, Kern Medical reported a \$49.1 million increase, or 163%, in deferred inflows of resources related to the net differences between pension plan and other postemployment benefits expected and actual experience and changes in proportion and differences between Kern Medical contributions and proportionate share of contributions. The deferred inflows of resources reported are \$79.3 million as of June 30, 2022, compared to a balance of \$30.1 million as of June 30, 2021.

Unrestricted net position – The unrestricted net position increased \$142.3 million, or 80%, from fiscal year 2021 to 2022, due to changes in actuarial assumptions and operating income for 2022. The balance consists mainly of net pension liability. The unrestricted net position reported is a deficit of \$36.0 million as of June 30, 2022, compared to a deficit of \$178.3 million as of June 30, 2021.

Changes from fiscal 2020 to 2021

Current assets – Current assets increased \$13.9 million, or 6%, from fiscal year 2020 to 2021, mainly due to an increase in cash. The cash balance increased \$44.6 million, or 146%, from fiscal year 2020 to 2021. Kern Medical is entitled to receive supplemental funding from various state and federal government sources based on patients served. The increase in cash was due in large part to the timing of when state and federal government agencies issue funds to healthcare providers. Some supplemental programs cross over fiscal and calendar years. This can result in large fluctuations in the cash balance at fiscal year-end.

Deferred outflows of resources – In connection with GASB Statement No. 68 and No. 75, Kern Medical reported a \$39.4 million, or 48%, increase in deferred outflows of resources related to changes in actuarial assumptions, net differences between projected and actual earnings on pension plan investments, and contributions made subsequent to the measurement date. The deferred outflows of resources reported are \$121.4 million as of June 30, 2021, compared to a balance of \$82.0 million as of June 30, 2020.

Kern County Hospital Authority Management's Discussion and Analysis

Current liabilities – Current liabilities decreased from fiscal year 2020 by \$29.6 million, or 27%. The decrease is mainly due to a \$20.2 million decrease in the current portion of long-term debt. The current portion of long-term debt reported is \$3.2 million as of June 30, 2021, compared to a balance of \$23.4 million as of June 30, 2020.

Noncurrent liabilities – Noncurrent liabilities increased from fiscal year 2020 by \$58.1 million, or 16%. The increase is mainly due to an increase in the net pension liability.

Deferred inflows of resources – In connection with GASB Statement No. 68 and No. 75, Kern Medical reported a \$15.3 million decrease, or 34%, in deferred inflows of resources related to the net differences between pension plan and other postemployment benefits expected and actual experience and changes in proportion and differences between Kern Medical contributions and proportionate share of contributions. The deferred inflows of resources reported are \$30.1 million as of June 30, 2021, compared to a balance of \$45.4 million as of June 30, 2020.

Unrestricted net position – The unrestricted net position increased \$49.3 million, or 22%, from fiscal year 2020 to 2021, due to changes in operating income for 2021. The increase was primarily due to improved revenue cycle efficiency realized in large part from the implementation of a new system. The unrestricted net position reported is a deficit of \$178.3 million as of June 30, 2021, compared to a deficit balance of \$227.6 million as of June 30, 2020.

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

	2022	As restated 2021	2020
Operating revenue	\$ 601,996,109	\$ 510,574,798	\$ 480,384,047
Nonoperating revenue	21,855,297	3,574,614	2,414,140
Total revenue	<u>623,851,406</u>	<u>514,149,412</u>	<u>482,798,187</u>
Depreciation and amortization	14,360,865	12,451,936	8,767,025
Operating expenses	468,038,997	449,363,989	416,661,675
Nonoperating expenses	1,326,252	1,927,077	2,666,435
Total expenses	<u>483,726,114</u>	<u>463,743,002</u>	<u>428,095,135</u>
Change in net position	140,125,292	50,406,410	54,703,052
Beginning net position, beginning of year	<u>(80,113,025)</u>	<u>(130,519,435)</u>	<u>(185,222,487)</u>
Ending net position	<u>\$ 60,012,267</u>	<u>\$ (80,113,025)</u>	<u>\$ (130,519,435)</u>

Kern County Hospital Authority

Management's Discussion and Analysis

Statements of Revenue, Expenses, and Changes in Net Position Highlights:

Changes from fiscal 2021 to 2022

The first component of Kern Medical's net position is its operating revenue. Operating revenue increased by \$91.4 million, or 18%, in fiscal year 2022 as compared to fiscal year 2021. The primary components of operating revenue are as follows:

Net patient service revenue totaled \$277.3 million for the fiscal year ended June 30, 2022. This was a \$22.7 million, or 9% increase from fiscal year 2021 to fiscal year 2022 due primarily to an increase in gross patient revenue. Kern Medical also recognized revenue from various indigent patient funding sources including Intergovernmental Transfer Programs, the Enhanced Payment Program funding, and the Hospital Fee Program totaling \$259.2 million for the year, as compared to fiscal year 2021 of \$192.1 million.

The second component of Kern Medical's net position is its operating expenses. Operating expenses increased \$20.6 million, or 4%, in fiscal year 2022 as compared to fiscal year 2021. The increase is due in large part to increases in nurse registry contract labor expenses. In addition, there were increases in services and medical supplies expenses.

Changes from fiscal 2020 to 2021

The first component of Kern Medical's net position is its operating revenue. Operating revenue increased by \$30.2 million, or 6%, in fiscal year 2021 as compared to fiscal year 2020. The primary components of operating revenue are as follows:

Net patient service revenue totaled \$254.6 million for the fiscal year ended June 30, 2021. This was a \$34.6 million, or 16% increase from fiscal year 2020 to fiscal year 2021 due primarily to an increase in gross patient revenue and a decrease in provisions for uncollectible accounts. Kern Medical also recognized revenue from various indigent patient funding sources including Intergovernmental Transfer Programs, the Enhanced Payment Program funding, and the Hospital Fee Program totaling \$192.1 million for the year, as compared to fiscal year 2020 of \$209.2 million.

The second component of Kern Medical's net position is its operating expenses. Operating expenses increased \$36.4 million, or 9%, in fiscal year 2021 as compared to fiscal year 2020. The increase is due mainly to increases in salaries and employee benefits expenses, as well as services and supplies expenses.

Kern County Hospital Authority Management's Discussion and Analysis

Analysis of Capital Assets

In fiscal year 2022, Kern Medical's capital assets decreased approximately \$2.3 million due to relatively fewer additions capital assets and Construction in Progress and various other additions as compared to fiscal year 2021. In fiscal year 2021, Kern Medical's capital assets increased approximately \$1.1 million due to additions to Construction in Progress and various other additions, offset by deletions of equipment and additions to accumulated depreciation. The table below provides summarized information for Kern Medical's outstanding capital assets for the years ended June 30, 2022 and 2021:

	July 1, 2021	Additions	Deletions	Transfers	June 30, 2022
Capital assets not subject to depreciation	\$ 10,393,004	\$ 7,168,765	\$ -	\$ (8,714,771)	\$ 8,846,998
Capital assets subject to depreciation	214,064,492	2,196,892	-	8,714,771	224,976,155
Less: accumulated depreciation and amortization	126,220,636	11,630,696	-	-	137,851,332
Capital assets subject to depreciation, net	87,843,856	(9,433,804)	-	8,714,771	87,124,823
Capital assets, net	<u>\$ 98,236,860</u>	<u>\$ (2,265,039)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,971,821</u>
	July 1, 2020	Additions	Deletions	Transfers	June 30, 2021
Capital assets not subject to depreciation	\$ 18,264,928	\$ 9,752,971	\$ -	\$ (17,624,895)	\$ 10,393,004
Capital assets subject to depreciation	195,014,657	1,424,940	-	17,624,895	214,064,492
Less: accumulated depreciation and amortization	116,182,225	10,038,411	-	-	126,220,636
Capital assets subject to depreciation, net	78,832,432	(8,613,471)	-	17,624,895	87,843,856
Capital assets, net	<u>\$ 97,097,360</u>	<u>\$ 1,139,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,236,860</u>

Additional information on Kern Medical's capital assets can be found in Note 4 of this report.

Kern County Hospital Authority Management's Discussion and Analysis

Long-Term Debt Summary

In fiscal year 2022, the decrease in long-term debt is the result of principal payments on existing debt. In fiscal year 2021, the decrease in long-term debt is primarily the result of a decrease in line of credit borrowing. The table below provides summarized information for the Medical Center's outstanding long-term liabilities as of June 30, 2022 and 2021:

	June 30, 2021	Incurred or Issued	Satisfied or Matured	June 30, 2022	Amounts Due Within One Year	Amounts Due in More Than One Year
Pension obligation bonds	\$ 16,352,458	\$ -	\$ 3,208,677	\$ 13,143,781	\$ 2,938,587	\$ 10,205,194
Total	\$ 16,352,458	\$ -	\$ 3,208,677	\$ 13,143,781	\$ 2,938,587	\$ 10,205,194

	June 30, 2020	Incurred or Issued	Satisfied or Matured	June 30, 2021	Amounts Due Within One Year	Amounts Due in More Than One Year
Pension obligation bonds	\$ 19,749,154	\$ -	\$ 3,396,696	\$ 16,352,458	\$ 3,208,676	\$ 13,143,782
Line of credit	20,000,000	-	20,000,000	-	-	-
Total	\$ 39,749,154	\$ -	\$ 23,396,696	\$ 16,352,458	\$ 3,208,676	\$ 13,143,782

Additional information on Kern Medical's long-term debt can be found in Note 6 of this report.

Economic Factors Affecting Next Year

During the past two and a half years, the COVID-19 pandemic has presented unprecedented challenges for the healthcare industry. It is expected that the pandemic will continue to have an impact during 2023. Kern Medical has adjusted to the changing conditions as needed and has maintained the staffing levels necessary to provide coverage for a surge in pandemic activity when necessary. In addition, Kern Medical is participating in all emergency funding programs available at the county, state, and federal levels to help offset lost revenue and increased expenses that may be realized due to the COVID-19 issue.

For fiscal year 2023, Kern Medical will continue to qualify for various governmental funding programs. On December 29, 2021, the State of California announced federal approval of a five-year Medicaid (Medi-Cal) Section 1115 waiver extension. The waiver extension is part of a bigger package of proposals under the California Advancing and Innovating Medi-Cal ("CalAIM") program. Section 1115 waivers allow states to waive certain federal Medicaid rules so that they can pursue innovative strategies to improve care for Medicaid beneficiaries. The extension will allow Kern Medical to continue to receive funding from all components of the waiver including the Global Payment Program ("GPP"). The Whole Person Care ("WPC") component of the previous waiver is being bridged into the new Providing Access and Transforming Health ("PATH") program under CalAIM. As with WPC, PATH is designed to provide integrated, patient-centered care through coordination of physical and behavioral health and social services to meet patients' holistic needs. Under the new waiver the third and largest component of the previous waiver, the Public Hospital Redesign and Incentives in Medi-Cal ("PRIME") program, has been effectively rolled into the Quality Incentive Program ("QIP"). This is favorable because the funding is no longer contingent on the approval of a new waiver. The QIP and the Enhanced Payment Program ("EPP") that Kern Medical also participates in, were developed three years ago due to a Medicaid managed care

Kern County Hospital Authority Management's Discussion and Analysis

rule implemented by CMS that limits the ability of states to direct payments to health care providers unless certain conditions are met. Exceptions to the rule are payments directed to health care providers that are tied to performance and payments that provide a uniform payment increase that includes a pre-determined increase over contracted rates.

Operating expenses are expected to remain consistent without significant increases.

The timing of State and Federal funding will continue to impact cash flow throughout the year.

Contacting Kern Medical's Chief Financial Officer

This financial report is designed to provide citizens, customers, and creditors with a general overview of Kern Medical's finances and to demonstrate Kern Medical's accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact the Chief Financial Officer, Kern Medical, 1700 Mount Vernon Ave., Bakersfield, California 93306.

Report of Independent Auditors

The Board of Governors
Kern County Hospital Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kern County Hospital Authority (the “Authority” or “Kern Medical”), a discretely presented component unit of the County of Kern, California, which comprise the statements of net position as of and for the years ended June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Kern Medical’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the net position of the Kern County Hospital Authority as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts. 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 Kern Medical and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kern Medical'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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2022, Kern Medical adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 87, *Leases*. 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 management's discussion and analysis and other post-employment benefit schedules on pages 1-9 and 55-57 respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kern Medical's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and are not a required part of the 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2023 on our consideration of Kern County Hospital Authority'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 Kern County Hospital Authority '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 Kern County Hospital Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California
February 1, 2023

Kern County Hospital Authority Statements of Net Position

	June 30,	
	2022	As restated 2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash	\$ 78,115,911	\$ 75,199,591
Revolving fund cash	2,900	5,830
Patient accounts receivable, net of allowances for doubtful accounts of \$17,477,373 in 2022 and \$10,685,628 in 2021 (Note 3)	46,341,733	43,480,755
Due from governmental agencies (Note 9)	188,632,200	96,098,267
Other receivables	8,603,645	7,578,926
Inventories	5,099,732	4,194,515
Prepaid expenses	4,838,151	4,342,845
Total current assets	331,634,272	230,900,729
RIGHT-TO-USE ASSETS, NET (Note 18)	7,964,725	9,185,312
CAPITAL ASSETS, net (Note 4)	95,971,821	98,236,860
Total assets	435,570,818	338,322,901
DEFERRED OUTFLOWS OF RESOURCES (Notes 11 and 13)	99,396,391	121,444,788
Total assets and deferred outflows of resources	\$ 534,967,209	\$ 459,767,689
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 32,718,559	\$ 48,655,559
Salaries and employee benefits payable	11,764,593	9,916,022
Interest payable, current portion (Note 7)	65,186	3,442,090
Current portion of compensated absences payable (Note 5)	6,362,361	6,480,909
Current portion of lease liability (Note 18)	2,650,200	2,647,484
Current portion of estimate for professional liability (Note 14)	2,587,893	2,953,120
Current portion of estimate for workers' compensation liability (Note 14)	1,017,630	1,170,271
Current portion of long-term debt (Note 6)	2,938,587	3,208,676
Total current liabilities	60,105,009	78,474,131
NONCURRENT LIABILITIES		
Interest payable, non-current portion (Note 7)	6,218,422	5,707,331
Compensated absences payable, non-current portion (Note 5)	12,724,721	12,961,817
Net pension liability (Note 11)	284,243,193	381,152,811
Net other post-employment benefits (Note 13)	7,216,964	1,653,757
Estimate for professional liability (Note 14)	4,977,378	4,916,056
Estimate for workers' compensation liability (Note 14)	4,314,780	4,903,284
Lease liability, net of current portion (Note 18)	5,694,483	6,835,121
Long-term debt, net of current portion (Note 6)	10,205,194	13,143,782
Total liabilities	395,700,144	509,748,090
DEFERRED INFLOWS OF RESOURCES (Notes 11 and 13)	79,254,798	30,132,624
NET POSITION		
Net investment in capital assets	95,971,821	98,236,860
Unrestricted	(35,959,554)	(178,349,885)
Total net position	60,012,267	(80,113,025)
Total liabilities, deferred inflows of resources, and net position	\$ 534,967,209	\$ 459,767,689

See accompanying notes.

Kern County Hospital Authority
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,	
	2022	As restated 2021
OPERATING REVENUES		
Net patient service revenue, net of provisions for uncollectible accounts of \$22,545,058 in 2022 and \$15,191,099 in 2021	\$ 277,322,517	\$ 254,596,129
Indigent patient care funding	259,189,175	192,121,998
County funding	34,282,424	34,318,740
Other operating revenue	31,201,993	29,537,931
Total operating revenues	601,996,109	510,574,798
OPERATING EXPENSES		
Salaries and employee benefits	256,985,492	275,264,624
Services and supplies	205,993,323	169,542,657
Other expenses	5,060,182	4,556,708
Depreciation and amortization	14,360,865	12,451,936
Total operating expenses	482,399,862	461,815,925
OPERATING INCOME	119,596,247	48,758,873
NONOPERATING REVENUES (EXPENSES)		
Interest on bank deposits and investments, net	126,306	47,937
Revenue from other governmental agencies	159,322	197,401
Other nonoperating revenues	21,569,669	3,329,276
Interest expense	(1,326,252)	(1,927,077)
Total nonoperating revenues, net	20,529,045	1,647,537
Change in net position	140,125,292	50,406,410
NET POSITION, beginning of year	(80,113,025)	(130,519,435)
NET POSITION, end of year	\$ 60,012,267	\$ (80,113,025)

Kern County Hospital Authority Statements of Cash Flows

	Years Ended June 30,	
	2022	As restated 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for patients/current services	\$ 274,461,539	\$ 264,876,772
Cash received for other operations	231,114,940	275,803,890
Cash paid for salaries and benefits	(275,668,405)	(272,949,604)
Cash paid for services and supplies	(229,436,078)	(181,160,826)
Net cash provided by operating activities	471,996	86,570,232
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from various County funds	21,728,991	3,526,677
Interest paid – pension obligation bond	(3,827,761)	(6,167,748)
Principal paid – pension obligation bond	(3,208,677)	(3,396,696)
Line of credit interest paid	(61,821)	(119,892)
Line of credit payment	-	(20,000,000)
Net cash provided by (used in) noncapital financing activities	14,630,732	(26,157,659)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition or construction of capital assets	(9,365,657)	(11,177,911)
Payments on lease liability	(2,949,987)	(4,704,886)
Net cash used in capital and related financing activities	(12,315,644)	(15,882,797)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on bank deposits and investments	126,306	47,937
Net cash provided by investing activities	126,306	47,937
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,913,390	44,577,713
CASH AND CASH EQUIVALENTS, beginning of year	75,205,421	30,627,708
CASH AND CASH EQUIVALENTS, end of year	\$ 78,118,811	\$ 75,205,421

Kern County Hospital Authority
Statements of Cash Flows (Continued)

	Years Ended June 30,	
	2022	As restated 2021
Reconciliation of cash and cash equivalents to the Statements of Net Position		
Cash	\$ 78,115,911	\$ 75,199,591
Revolving fund cash	2,900	5,830
Total cash and cash equivalents at the end of year	<u>\$ 78,118,811</u>	<u>\$ 75,205,421</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 119,596,247	\$ 48,758,873
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for bad debts	22,545,058	15,191,099
Depreciation and amortization	14,360,865	12,451,936
Changes in assets and liabilities		
Patient accounts receivable, net	(25,406,036)	(4,910,456)
Due from governmental agencies	(92,533,933)	22,083,817
Other receivables	(1,024,719)	(2,258,596)
Inventories	(905,217)	1,618,861
Prepaid expenses	(495,306)	(1,044,874)
Deferred outflows of resources	22,048,397	(39,427,393)
Accounts payable and accrued expenses	(15,937,000)	(9,108,571)
Salaries and employee benefits payable	1,848,571	(2,084,899)
Compensated absences payable	(355,644)	2,143,818
Estimate for professional liability	(303,905)	1,672,552
Estimate for workers' compensation liability	(741,145)	(199,429)
Net pension liability	(96,909,618)	59,049,014
Net other post-employment benefits	5,563,207	(2,099,498)
Deferred inflows of resources	49,122,174	(15,266,022)
Net cash provided by operating activities	<u>\$ 471,996</u>	<u>\$ 86,570,232</u>

Note 1 – Nature of Operations and Reporting Entity

Kern County Hospital Authority (the “Authority” or “Kern Medical”) is a 222-bed acute care teaching hospital affiliated with the University of California Schools of Medicine at Los Angeles, San Diego, and Irvine. Kern Medical is responsible for the provision of health care services for emergency, outpatient, and inpatient medical care to all classes of patients including Medicare and Medi-Cal eligible, medically indigent persons, and inmates of the County of Kern (the “County”) institutions and juvenile facilities. The management of Kern Medical reports directly to Kern Medical’s Board of Governors.

Assembly Bill (AB) 2546 passed the California State Legislature on September 26, 2014, and authorized the Board of Supervisors of the County (the “Board”) to establish, by ordinance, the Kern County Hospital Authority to manage, administer, and control Kern Medical Center, an enterprise fund of the County, and other health care facilities, and other functions affiliated or consolidated with Kern Medical Center. The Board has adopted the ordinance organizing the Hospital Authority effective November 6, 2015. Pursuant to the aforementioned legislation, effective July 1, 2016, ownership, control, management, medical facilities, and operation of Kern Medical Center was transferred to the Kern County Hospital Authority. The Kern County Hospital Authority is a local unit of government separate and apart from the County and any other public entity. The Kern County Hospital Authority recognized the carrying values of assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the operations of the Kern Medical Center as of July 1, 2016, the effective transfer date.

On July 1, 2016, the County and the Kern County Hospital Authority also entered into an Agreement for Health Care Services, Finance, and Support (the “Service Agreement”) addressing certain financial relationships between the two parties, including:

- (i) County’s financial support of the Authority in the form of loans and/or grants;
- (ii) Authority’s assumption of certain liabilities of the County, which liabilities the County incurred in connection with prior operations of Kern Medical Center;
- (iii) The continued provision of certain health care services to residents of the County;
- (iv) Authority’s participation in the County Treasury; and
- (v) County’s consent for the Authority to participate in and receive, and otherwise access, certain County general purpose funds and local revenue fund amounts identified or earmarked for health care services to the indigent, including Medi-Cal beneficiaries and uninsured patients.

During the year ended June 30, 2018, Kern Medical formed the Kern Medical Surgery Center (“KMSC”), which operates in Bakersfield, California. KMSC is a wholly owned subsidiary of Kern Medical and is an independently run outpatient surgery center. KMSC is presented as a blended component unit of Kern Medical.

Kern County Hospital Authority

Notes to Financial Statements

Note 1 – Nature of Operations and Reporting Entity (continued)

In March 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) outbreak a public health emergency. The COVID-19 outbreak has not resulted in facility closures. In response to the decline in net patient service revenue driven by lower patient volumes and increased operating expenses due to the pandemic, federal government funding was made available to health care providers. The Centers for Medicare & Medicaid Services (“CMS”) initiated an Accelerated Payments Program, which represents advance payments based upon historic Medicare volume for services to be provided in the future. Kern Medical received approximately \$11,490,000 of these advance payments during the year ended June 30, 2020. During the year ended June 30, 2021, approximately \$844,000 was recouped by CMS and the remaining balance of \$10,646,000 is recorded in accounts payable and accrued expenses in the accompanying statements of net position as of June 30, 2021. During the year ended June 30, 2022, approximately \$10,404,000 was recouped by CMS and the remaining balance of \$242,000 is recorded in accounts payable and accrued expenses in the accompanying statements of net position as of June 30, 2022.

Additionally, as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), the Department of Health and Human Services (“HHS”) distributed \$175 billion to health care providers as part of the Provider Relief Fund. During the year ended June 30, 2021, Kern Medical received a total of approximately \$566,000 of payments. As Kern Medical met the conditions for these funds, as well as the amount deferred from the previous year, the amount of approximately \$3,010,000 was included in nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position during the year ended June 30, 2021. During the year ended June 30, 2022, Kern Medical received a total of approximately \$6,788,000 of payments. As Kern Medical met the conditions for these funds, the amount is included in nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position during the year ended June 30, 2022.

Facility closures or disruption in operations of Kern Medical’s customers, suppliers, or third-party payers could adversely impact Kern Medical’s results of operations to the extent that COVID-19 or any other epidemic harms the economy. The duration and intensity of the impact of the coronavirus and resulting disruption to Kern Medical’s operations is uncertain.

Kern County Hospital Authority Notes to Financial Statements

Note 2 – Summary of Significant Accounting and Reporting Policies

Basis of accounting and presentation – The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for health care organizations, and are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statement – and Management’s Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 and subsequent amendments including GASB Statement No. 63, as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following net position categories:

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Assets whose use by Kern Medical are subject to externally-imposed constraints that can be fulfilled by actions of Kern Medical pursuant to those constraints or that expire by the passage of time. Restricted resources are used in accordance with Kern Medical’s policies. When both restricted and unrestricted resources are available for use, the determination to use restricted or unrestricted resources is made on a case-by-case basis.

Unrestricted net position – This amount represents the amount of net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Governors or may otherwise be limited by contractual agreements with outside parties.

Adoption of GASB No. 87 – During the year ended June 30, 2022, Kern Medical adopted GASB Statement No. 87, *Leases* (GASB 87) and implemented GASB 87 on a retroactive basis by restating June 30, 2021, balances, as required. These changes had an effect on the beginning net position of Kern Medical. Kern Medical evaluated contracts that were formerly accounted for as operating leases to determine whether they meet the definition of a lease as defined in GASB 87. The contracts to lease building space and equipment met the definition of a lease. Kern Medical recognized \$11,579,997 in a lease liability as of July 1, 2020, due to the implementation of GASB 87; however, this entire amount was offset by a right-to-use lease asset. The implementation of GASB 87 had the following effect on net position as reported as of June 30, 2021:

Net position as of June 30, 2021, as previously reported	\$ (79,872,093)
GASB 87 Leases	<u>(240,932)</u>
Net position as of June 30, 2021, as restated	<u><u>\$ (80,113,025)</u></u>

See Note 18 for additional information.

Kern County Hospital Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting and Reporting Policies (continued)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Leases – Kern Medical recognizes lease contracts or equivalents that have a term exceeding one year that meet the definition of an other than short-term lease. Kern Medical uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the Kern Medical’s incremental borrowing rate at the start of the lease for a similar asset type and term length to the contract. Short-term lease payments are expensed when incurred.

Cash and revolving cash fund – Kern Medical considers all highly liquid investments with original maturities of three months or less to be cash or a revolving cash fund. Cash consists of bank deposits, which are carried at cost which approximates fair value.

Patient accounts receivable – Kern Medical reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. Kern Medical provides an allowance for uncollectible accounts based upon a review of outstanding receivables and historical collection information. As a service to the patient, Kern Medical bills third-party payers directly and bills the patient when the patient’s liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Inventories – Inventories consist of expendable supplies held for consumption. Supply inventories are stated at the lower of cost, or market.

Capital assets – Capital assets, which include property, plant, and equipment, are stated at cost if purchased, or fair value on the date received if donated. Kern Medical has established a policy to capitalize expenses for capital assets with an individual cost of \$5,000 for equipment, \$25,000 for intangibles, and \$50,000 for structures with a useful life greater than one year. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets during the year ended June 30, 2021. For the year ended June 30, 2022, interest cost is no longer capitalized during the period of construction based upon the adoption of GASB 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Intangible assets represent software purchases and are amortized based on estimated useful life. Capital assets other than intangible assets are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Structures and improvements	10 to 40 years
Equipment and intangibles	3 to 20 years

Note 2 – Summary of Significant Accounting and Reporting Policies (continued)

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statement of revenues, expenses, and changes in net position. There were no impairment losses recorded during the years ended June 30, 2022 and 2021.

Right-to-use assets – Kern Medical has recorded right-to-use lease assets as a result of implementing GASB 87. The right-to-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

Compensated absences – Kern Medical policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment or other post-employment benefit. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash or other post-employment benefit. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net patient service revenue – Kern Medical has agreements with third-party payers that provide for payments to Kern Medical at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts receivable from patients, third-party payers, and others for services rendered, including a provision for bad debt and estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis during the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period. Changes in revenue due to changes in estimates of patient accounts receivable allowances for prior years was not significant during the year ended June 30, 2022. A decrease in revenue due to changes in estimates of patient accounts receivable allowances for prior years was approximately \$11 million during the year ended June 30, 2021, due primarily to increased estimation uncertainty in the prior year related to an information system conversion.

Kern County Hospital Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting and Reporting Policies (continued)

Third-party payers – Kern Medical is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. Kern Medical believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

The majority of Kern Medical’s receivables are related to the care of patients covered by Medi-Cal, Medicare, and special funding created by legislative acts that subsidize certain health care facilities that treat a disproportionate share of Medi-Cal beneficiaries.

Uncompensated care – The County is mandated to provide medical care to indigent and dependent poor County residents under California Welfare and Institutions Code Section 17000. The County fulfills its Section 17000 obligation through services provided at Kern Medical. Through its Medically Indigent Adult Program, patients are charged for services and supplies based on their ability to pay. In assessing a patient’s ability to pay, Kern Medical utilizes state-determined poverty levels. Additionally, Kern Medical provides services to patients that are outside of the Medically Indigent Adult Program and does not receive compensation for those services. Kern Medical maintains records to identify, monitor, and report the level of indigent and uncompensated care provided to the community. These records include the estimates of cost of services and supplies furnished yet uncompensated for, which are based upon a ratio of cost to charges. The following information measures the level of uncompensated care provided during the years ended June 30, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Estimated cost of services provided but uncompensated	\$ 5,000,000	\$ 5,100,000

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government of the County of Kern’s Kern County Employees’ Retirement Association (“KCERA”) plans (the “Plans”) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by KCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Disclosures about fair value of financial instruments – The carrying amount of revolving fund cash, patient accounts receivable, other current assets, accounts payable, and accrued expenses approximate fair value because of the short-term maturity of these instruments.

Note 2 – Summary of Significant Accounting and Reporting Policies (continued)

Risk management – Kern Medical 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 illness; natural disasters; and employee health, dental, and accident benefits. As discussed in Note 16, commercial insurance coverage is purchased by Kern Medical for claims arising from such matters where Kern Medical has not retained the risk of loss. Kern Medical is self-insured for medical malpractice claims and judgments. The provision for estimated self-insured medical malpractice includes estimates of the ultimate costs for both reported claims and claims incurred but not reported (“IBNR”), and other allocated claim adjustment expenses.

Concentration of credit risk – Receivables from government programs present the only concentrated group of credit risk for Kern Medical. Management does not believe that there are any credit risks associated with these governmental agencies. Negotiated and private receivables consist of receivables from various payers, including individuals involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risk to Kern Medical. Management continually monitors and adjusts its reserves and allowances associated with these receivables, and such allowances have historically been adequate to cover losses realized.

Deposit concentration risk is managed by placing cash and cash equivalents in various financial institutions. The amount of deposits at times may exceed federally insured limits.

Income taxes – Kern Medical is exempt from federal and state income tax pursuant to Internal Revenue Code (“IRC”) Section 115 and similar provisions of the California Franchise Tax Code and is also exempt from federal and state income tax filing requirements.

Operating revenues and expenses – The statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, Kern Medical’s principal activity. Non-exchange revenues, including grants, contributions, and income (losses) from investments, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services.

Reclassifications – Certain reclassifications were made to prior year amounts to conform to the current year presentation.

Recent accounting pronouncements – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This standard requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which delayed the effective date of Statement No. 89 to reporting periods beginning July 1, 2021. This Statement was implemented by Kern Medical as required during the year ended June 30, 2022 and did not have a significant impact on the financial statements.

Kern County Hospital Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting and Reporting Policies (continued)

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

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”), including defining a SBITA, establishing that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability, providing the capitalization criteria for outlays other than subscription payments, and requiring note disclosures regarding a SBITA. The guidance is effective for Kern Medical in the year ending June 30, 2023. Kern Medical is currently assessing the impact of this standard on Kern Medical's financial statements.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans-An Amendment of GASB Statements No. 14 and 84, and a Supersession of GASB Statement No. 32*. This standard clarifies certain guidance related to Statement No. 84. The guidance has various effective dates, the majority of which are effective for Kern Medical in the year ending June 30, 2022. This Statement was implemented by Kern Medical as required during the year ended June 30, 2022 and did not have a significant impact on the financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. The guidance is effective for Kern Medical in the year ending June 30, 2025. Kern Medical is currently assessing the impact of this standard on Kern Medical's financial statements.

Kern County Hospital Authority
Notes to Financial Statements

Note 3 – Patient Accounts Receivable

Kern Medical grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Gross patient accounts receivable as of June 30, 2022 and 2021, consisted of:

	<u>2022</u>	<u>2021</u>
Medicare	17 %	16 %
Medi-Cal	63	63
Other third-party and commercial payor	15	16
Self pay	4	3
County responsibility	<u>1</u>	<u>2</u>
Total	<u><u>100 %</u></u>	<u><u>100 %</u></u>

Kern County Hospital Authority

Notes to Financial Statements

Note 4 – Capital Assets, Depreciation, and Amortization

Capital asset activity for the years ended June 30, 2022 and 2021, is shown below:

	July 1, 2021	Additions	Disposals	Transfers	June 30, 2022
Capital assets not subject to depreciation					
Land	\$ 1,854,424	\$ -	\$ -	\$ -	\$ 1,854,424
Construction in progress	8,538,580	7,168,765	-	(8,714,771)	6,992,574
Total capital assets not subject to depreciation	10,393,004	7,168,765	-	(8,714,771)	8,846,998
Capital assets subject to depreciation					
Equipment	67,325,056	2,147,890	-	-	69,472,946
Structures and improvements	98,153,403	49,002	-	-	98,202,405
Intangibles	48,586,033	-	-	8,714,771	57,300,804
Total capital assets subject to depreciation	214,064,492	2,196,892	-	8,714,771	224,976,155
Less: accumulated depreciation and amortization for					
Equipment	46,957,925	5,226,983	-	-	52,184,908
Structures and improvements	61,925,019	3,142,940	-	-	65,067,959
Intangibles	17,337,692	3,260,773	-	-	20,598,465
Total accumulated depreciation and amortization	126,220,636	11,630,696	-	-	137,851,332
Total capital assets subject to depreciation, net	87,843,856	(9,433,804)	-	8,714,771	87,124,823
Total capital assets, net	\$ 98,236,860	\$ (2,265,039)	\$ -	\$ -	\$ 95,971,821
	July 1, 2020	Additions	Disposals	Transfers	June 30, 2021
Capital assets not subject to depreciation					
Land	\$ 1,809,424	\$ 45,000	\$ -	\$ -	\$ 1,854,424
Construction in progress	16,455,504	9,707,971	-	(17,624,895)	8,538,580
Total capital assets not subject to depreciation	18,264,928	9,752,971	-	(17,624,895)	10,393,004
Capital assets subject to depreciation					
Equipment	54,625,846	1,424,940	-	11,274,270	67,325,056
Structures and improvements	91,802,778	-	-	6,350,625	98,153,403
Intangibles	48,586,033	-	-	-	48,586,033
Total capital assets subject to depreciation	195,014,657	1,424,940	-	17,624,895	214,064,492
Less: accumulated depreciation and amortization for					
Equipment	43,468,598	3,489,327	-	-	46,957,925
Structures and improvements	58,438,957	3,486,062	-	-	61,925,019
Intangibles	14,274,670	3,063,022	-	-	17,337,692
Total accumulated depreciation and amortization	116,182,225	10,038,411	-	-	126,220,636
Total capital assets subject to depreciation, net	78,832,432	(8,613,471)	-	17,624,895	87,843,856
Total capital assets, net	\$ 97,097,360	\$ 1,139,500	\$ -	\$ -	\$ 98,236,860

Kern County Hospital Authority Notes to Financial Statements

Note 5 – Compensated Absences Payable

Under the terms of union contracts, employees are granted vacation and sick leave in varying amounts depending upon their respective bargaining unit. In the event of termination or death, an employee, or the employee's estate, is compensated 100% of accumulated vacation. In the event of an employee's death or retirement, excluding deferred retirement, an employee, or the employee's estate, is compensated for accumulated sick leave in varying amounts from 50% to 100% depending on the employee's bargaining unit and length of service. The value of accumulated vacation and sick leave as of June 30, 2022 and 2021, is summarized below:

	2022	2021
Current portion	\$ 6,362,361	\$ 6,480,909
Non-current portion	12,724,721	12,961,817
	\$ 19,087,082	\$ 19,442,726

Note 6 – Long-Term Debt

The following is a summary of long-term obligation transactions of Kern Medical for the years ended June 30, 2022 and 2021:

	July 1, 2021	Incurred or Issued	Satisfied or Matured	June 30, 2022	Amounts Due Within One Year	Amounts Due in More Than One Year
Pension obligation bonds	\$ 16,352,458	\$ -	\$ 3,208,677	\$ 13,143,781	\$ 2,938,587	\$ 10,205,194
Total	\$ 16,352,458	\$ -	\$ 3,208,677	\$ 13,143,781	\$ 2,938,587	\$ 10,205,194
	July 1, 2020	Incurred or Issued	Satisfied or Matured	June 30, 2021	Amounts Due Within One Year	Amounts Due in More Than One Year
Pension obligation bonds	\$ 19,749,154	\$ -	\$ 3,396,696	\$ 16,352,458	\$ 3,208,676	\$ 13,143,782
Line of credit	20,000,000	-	20,000,000	-	-	-
Total	\$ 39,749,154	\$ -	\$ 23,396,696	\$ 16,352,458	\$ 3,208,676	\$ 13,143,782

Kern County Hospital Authority

Notes to Financial Statements

Note 6 – Long-Term Debt (continued)

Scheduled principal and interest repayments for long-term debt are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2023	\$ 2,938,587	\$ 365,819
2024	1,991,965	1,436,264
2025	1,062,281	2,542,598
2026	1,058,183	2,730,055
2027	1,981,763	1,986,653
2028–2030	<u>4,111,002</u>	<u>28,674</u>
	<u>\$ 13,143,781</u>	<u>\$ 9,090,063</u>

Total interest costs incurred for the years ended June 30, 2022 and 2021, were approximately \$1,326,000 and \$1,927,000, respectively.

Pension obligation bonds – In November 1995, the County issued pension obligation bonds to finance the County’s share of the unfunded accrued actuarial liability of the Kern County Employees’ Retirement Association. As of June 30, 2021, the amount of total 1995 pension obligation bonds outstanding for the County as a whole was approximately \$3,998,000, of which \$571,000 was allocated to Kern Medical. The initial basis of the amount allocated to Kern Medical was determined by Kern Medical’s share of the County-wide retirement contribution for the year ended June 30, 1995. As of June 30, 2022, the total pension obligation bond balance was paid in full and the respective balances are zero.

The bonds had various maturity dates between 2016 and 2022. Interest ranged from 6.16% to 7.26% for the current interest bonds and from 7.56% to 7.61% for the capital appreciation bonds.

In May 2003, the County issued pension obligation bonds to finance the County’s share of the unfunded accrued actuarial liability of the Kern County Employees’ Retirement Association. In August 2008, the County issued pension obligation bonds, Series 2008 A. The Series 2003 B Bonds were redeemed with the proceeds of the Series 2008 A Refunding Bonds. As of June 30, 2022 and 2021, the amounts of total 2003 and 2008 pension obligation bonds outstanding for the County as a whole were approximately \$117,865,000 and \$141,518,000, respectively. Of these amounts, approximately \$13,143,000 and \$15,781,000 were allocated to Kern Medical, respectively. The initial basis of the amount allocated to Kern Medical was determined by Kern Medical’s share of the County-wide retirement contribution for the year ended June 30, 2003.

Kern County Hospital Authority Notes to Financial Statements

Note 6 – Long-Term Debt (continued)

The Series 2003 A Bonds were issued as Current Interest Bonds and Capital Appreciation Bonds; the Series 2003 B Bonds were refunded as Adjustable Rate Bonds in August 2008. The bonds have various maturity dates between 2006 and 2023 for the Current Interest Bonds and from 2023 and 2028 for the Capital Appreciation Bonds. Series 2003 A Bonds have fixed interest rates that range from 2.33% to 4.88% for the current interest bonds and 5.50% to 5.57% for the capital appreciation bonds. The 2008 A Bonds have an adjustable rate. Adjustable rates follow LIBOR plus 0.75%. Starting in April 2014, the 2008 A Bonds have a fixed interest rate of 4.185%.

Line of credit – In March 2019, Kern Medical entered into a revolving line of credit agreement with a financial institution, secured by revenues and nongovernmental receivables that have been pledged as security pursuant to the agreement with the financial institution. Amounts available under the revolving credit agreement are \$20,000,000 with a mature date of February 28, 2023. Interest is payable on a monthly basis at the current LIBOR rate plus 90 basis points. As of both June 30, 2022 and 2021, there were no outstanding borrowings.

Note 7 – Interest Payable

The following is a summary of interest payable transactions of Kern Medical for the years ended June 30, 2022 and 2021:

	<u>July 1, 2021</u>	<u>Amount Accrued</u>	<u>Amount Paid</u>	<u>June 30, 2022</u>
<u>Current</u>				
Pension obligation bonds (POB)	3,442,090	450,857	3,827,761	65,186
Total current interest payable	<u>3,442,090</u>	<u>450,857</u>	<u>3,827,761</u>	<u>65,186</u>
<u>Non-current</u>				
POB capital appreciation bonds	5,707,331	511,091	-	6,218,422
Total interest payable	<u>\$ 9,149,421</u>	<u>\$ 961,948</u>	<u>\$ 3,827,761</u>	<u>\$ 6,283,608</u>
	<u>July 1, 2020</u>	<u>Amount Accrued</u>	<u>Amount Paid</u>	<u>June 30, 2021</u>
<u>Current</u>				
Pension obligation bonds (POB)	5,711,433	3,898,405	6,167,748	3,442,090
Total current interest payable	<u>5,711,530</u>	<u>3,898,405</u>	<u>6,167,748</u>	<u>3,442,090</u>
<u>Non-current</u>				
POB capital appreciation bonds	8,174,119	859,093	3,325,881	5,707,331
Total interest payable	<u>\$ 13,885,649</u>	<u>\$ 4,757,498</u>	<u>\$ 9,493,629</u>	<u>\$ 9,149,421</u>

Kern County Hospital Authority

Notes to Financial Statements

Note 8 – Net Patient Service Revenue

Kern Medical has agreements with third-party payers that provide for payments to Kern Medical at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively-determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, acuity, and other factors. Kern Medical is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by Kern Medical and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited Kern Medical's cost reports through June 30, 2018.

Medi-Cal – Inpatient acute services rendered to Medi-Cal program beneficiaries are paid at a prospectively determined rate per discharge (APR-DRG). These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based upon a fee schedule per procedure, test, or service.

Approximately 88% and 87% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the years ended June 30, 2022 and 2021, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change in the near term.

Kern Medical has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Kern Medical under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Kern County Hospital Authority Notes to Financial Statements

Note 9 – Indigent Patient Care Funding

Kern Medical is entitled to receive supplemental funding from various governmental sources based on the patients served. The following information summarizes the major payment arrangements for the years ended June 30, 2022 and 2021:

	2022	2021
Global payment program	\$ 41,228,087	\$ 34,486,438
Public hospital redesign and incentives in Medi-Cal Program	-	1,874,024
Whole person care	14,822,928	15,081,632
Medi-Cal managed care supplemental programs	34,756,866	43,925,283
Enhanced payment program	48,644,208	21,934,988
Quality incentive program	97,611,992	40,572,643
Graduate medical education program	4,088,400	5,968,215
CalAIM program	1,770,120	-
Other	16,266,574	28,278,775
Total	\$ 259,189,175	\$ 192,121,998

Medi-Cal waiver – California’s Medi-Cal Hospital/Uninsured Care Demonstration Project (“Demonstration”) is a system for paying selected hospitals, including Kern Medical, for hospital care provided to Medi-Cal and uninsured patients. The Demonstration was negotiated between the State of California’s Department of Health Services (“DHS”) and the Federal Centers for Medicare and Medicaid Services (“CMS”) in 2006 and covers the period from July 1, 2005 to June 30, 2010. The implementing State legislation (SB 1100) was enacted by the Legislature in September 2005. The five-year Demonstration affects payments for 23 public hospitals, including all University of California owned hospitals, identified as Designated Public Hospitals, and private and non-designated public safety net hospitals that serve large numbers of Medi-Cal patients. The program was extended in 2010 to cover the period from July 1, 2010 to June 30, 2015. The program was further extended in 2015 to cover the period from July 1, 2015 to June 30, 2020. During the year ended June 30, 2022, the program was further extended to cover the period through December 31, 2026.

Under the Demonstration, payments for the public hospitals are comprised of: 1) Fee for Service (“FFS”) cost-based reimbursement for inpatient hospital services (exclusive of physician component); 2) Disproportionate Share Hospital (“DSH”) Program payments (formerly SB 855); and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool (“SNCP”). The nonfederal share of these three types of payments will be provided by the public hospitals rather than the State, primarily through certified public expenditures (“CPE”) whereby the hospital would expend its local funding for services to draw down the Federal financial participation (“FFP”), currently provided at a 50% match. For the inpatient hospital FFS cost-based reimbursement, each hospital will provide its own CPE and receive all of the resulting Federal match. For the DSH and SNCP distributions, the CPEs of all the public hospitals will be used in the aggregate to draw down the Federal match. It is therefore possible for one hospital to receive the Federal match that results from another hospital’s CPEs. In this situation, the first hospital is referred to as a “recipient” hospital, while the second is referred to as a “donor” hospital. A recipient hospital is required to “retain” the FFP amounts resulting from donated CPEs.

Kern County Hospital Authority

Notes to Financial Statements

Note 9 – Indigent Patient Care Funding (continued)

The Demonstration prioritizes payments so that, to the extent possible, total payments to hospitals are at a minimum “baseline” level. For public hospitals, the baseline level is determined and satisfied on a hospital-specific basis. The three funding components that will be utilized to meet each hospital’s baseline level are as follows:

- 1) Medi-Cal inpatient FFS cost-based reimbursement: The FFP that is paid to the hospital represents approximately half of the facility-specific costs or CPE. The hospital’s amounts will fluctuate based on the number of facility-specific Medi-Cal patients served and the facility-specific cost-computations that will be adjusted on an interim and final basis.
- 2) DSH funds: These payments are made to hospitals to take into account the uncompensated costs of care delivered to the uninsured, including undocumented immigrants, as well as shortfalls between Medi-Cal psychiatric and Medi-Cal managed care payments and the cost of care delivered. The nonfederal share of these funds will be a combination of CPEs for these services and Intergovernmental Transfers (IGTs) and as such are subject to interim and final cost settlement. There is an annual fixed allotment of Federal DSH funds, and the waiver allocates almost all of these funds to public hospitals.
- 3) SNCP distributions: Federal payments made to public hospitals and clinics for uncompensated care delivered to uninsured patients and for certain designated non-hospital costs, such as drugs and supplies for the uninsured. The nonfederal share of these funds will be based on CPEs for these services and as such are subject to interim and final cost settlement. Effective January 1, 2016, this program was replaced with the Global Payment Program, described below.

The DSH program was established in 1981 as part of the Medicaid program and requires State Medicaid agencies to make additional payments to hospitals serving disproportionate numbers of low-income patients with special needs. Effective July 1, 1997, the program was amended to limit DSH payments to 100% of the amount of incurred uncompensated care costs (UCC) with a special provision that allowed payments of up to 175% of UCC to those public hospitals qualifying as “high DSH” hospitals in the State of California.

In 2001, the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services conducted an audit of DSH payments to Kern Medical in order to determine that those payments did not exceed the hospital specific limit for fiscal year 1998. In September 2002, the OIG issued its final report, claiming total overpayments to Kern Medical of approximately \$38,700,000, of which approximately \$19,400,000 represents the Federal share.

Note 9 – Indigent Patient Care Funding (continued)

The report states that federal law requires the state to recover overpayments, and state law requires that overpayments determined by audit or federal disallowance should be recouped by the state. However, in its conclusions, the report does not specifically request Kern Medical to refund the overpayment.

The DHS and Kern Medical generally disagree with the findings of the OIG and maintain that the DSH payments were properly paid in accordance with the approved State plan. Furthermore, both the State and Kern Medical assert that the governing statute, OBRA 1993, does not require retrospective settlement, as these settlements are extremely disruptive and counter-productive to the purposes of the DSH program. No provision has been made in these financial statements to repay the amounts claimed by the OIG in its report.

DHS has completed its audit and reconciliation of the 2005-2006 Medi-Cal funds and noted that Kern Medical was overpaid in the total amount of \$2,116,022. Kern Medical paid this amount back to DHS on October 9, 2013. Kern Medical hired a third-party consultant to evaluate its outstanding receivables related to the remaining years subject to audit from 2006-2007 through 2013-2014 noting Kern Medical is estimated to have been overpaid by DHS in the amount of approximately \$41,100,000 over the course of these stated 8 years. The amount has been recorded as an offset totaling \$40,394,000 and \$34,811,000 within due from governmental agencies in the accompanying statements of net position as of June 30, 2022 and 2021, respectively, and is subject to audit by DHS.

Included as an offset within due from governmental agencies in the accompanying statements of net position are amounts payable to DHS as of June 30, 2022 and 2021, of approximately \$44,842,000 and \$37,696,000, respectively, which represent the amounts received but not yet earned by Kern Medical under the waiver program net of amounts earned but not yet received by Kern Medical under the program, primarily related to the matter described above and ongoing audits. Kern Medical recorded changes in estimates in amounts expected to be received resulting in increases/(reductions) in indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately (\$7,146,000) and \$23,339,000 during the years ended June 30, 2022 and 2021, respectively.

Global Payment Program (GPP) – Effective January 1, 2016, California’s Section 1115 Waiver Renewal (Renewal), referred to as Medi-Cal 2020, was approved by CMS. As part of the Renewal, the GPP establishes a statewide pool of funding for the remaining uninsured by combining federal DSH and uncompensated care funding where selected Designated Public Hospital systems, like Kern Medical, can achieve their goal of “global budget” by meeting a service threshold that incentivizes movement from high cost, avoidable services to providing higher value, and preventative services. Kern Medical recognized approximately \$41,228,000 and \$34,486,000 in indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position during the years ended June 30, 2022 and 2021, respectively, for section 1115 waiver programs including GPP. As of June 30, 2022 and 2021, amounts receivable were approximately \$8,963,000 and \$17,015,000, respectively, for this program which is included in due from governmental agencies on the accompanying statements of net position.

Kern County Hospital Authority

Notes to Financial Statements

Note 9 – Indigent Patient Care Funding (continued)

Public Hospital Redesign and Incentives in Medi-Cal program (PRIME) – As part of the Renewal described above, CMS authorized California to invest savings generated through the Demonstration to achieve critical objectives, such as improved quality of care and better care coordination through safety net providers. Over 5 years, up to approximately \$7,464,000,000 in federal funds will be available to all hospitals participating in the PRIME program. As of December 31, 2020, the PRIME program expired. As a result of participating in PRIME, Kern Medical recorded indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$0 and \$1,874,000 for the years ended June 30, 2022 and 2021, respectively. No amounts are due to or from governmental agencies as of June 30, 2022 and 2021.

Whole Person Care (WPC) – Effective June 1, 2017, CMS approved an amendment to the Special Terms and Conditions of California’s Medi-Cal 2020 Demonstration for the WPC Pilots program. The overarching goal of the WPC Pilots is the coordination of health, behavioral health, and social services, as applicable, in a patient-centered manner with the goals of improved beneficiary health and wellbeing through more efficient and effective use of resources. WPC Pilots provide the option to Kern Medical to receive support to integrate care for a particularly vulnerable group of Medi-Cal beneficiaries who have been identified as high users of multiple systems and continue to have poor health outcomes. Through collaborative leadership and systematic coordination among public and private entities, WPC Pilot entities will identify target populations, share data between systems, coordinate care real time, and evaluate individual and population progress – all with the goal of providing comprehensive coordinated care for the beneficiary resulting in better health outcomes. As a result of participating in WPC, Kern Medical recorded approximately \$14,823,000 and \$15,082,000 in indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2022 and 2021, respectively. Approximately \$0 and \$4,998,000 of amounts receivable are included in the overall balance due from governmental agencies in the accompanying statements of net position as of June 30, 2022 and 2021, respectively.

Medi-Cal Managed Care Supplemental Programs – For newly eligible Medi-Cal patients under the ACA effective January 1, 2014, certain portions of the ACA provided Medi-Cal coverage for patients previously covered under risk sharing agreements. The majority of these beneficiaries were enrolled in managed Medi-Cal health plans. Due to payment mechanisms between the State and the health plans (capitation), an opportunity to receive supplemental funding similar to current rate range programs was made available to the DPHs. As a result of the supplemental funding, Kern Medical recorded indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$34,757,000 and \$43,925,000 for the years ended June 30, 2022 and 2021, respectively. Approximately \$51,446,000 and \$34,689,000 of amounts receivable are included in the overall balance due from governmental agencies in the accompanying statements of net position as of June 30, 2022 and 2021, respectively.

Note 9 – Indigent Patient Care Funding (continued)

Enhanced Payment Program (EPP) and Quality Incentive Program (QIP) – In 2016, CMS published the Medicaid and Children’s Health Insurance Program Managed Care Final Rule (Managed Care Rule), which went into effect July 1, 2017. The Managed Care Rule limits the ability of states to direct payments to health care providers, unless certain conditions are met. Among the allowable exceptions are payments tied to performance and payments that provide a uniform payment increase that includes a predetermined increase over contracted rates. Some of the existing supplemental payments in managed care did not meet these conditions. In order to retain this critical funding, these payments were restructured into two new CMS approved programs, effective July 1, 2017: the EPP and the QIP. The EPP divides public health care systems into five different classes, with payment terms defined according to class. Enhanced funding available to the class is distributed pro rata based on unitization encounter data reported to the State. The QIP is meant to meet the Managed Care Rule’s exception that allows payments tied to performance. The QIP is structured similar to the PRIME program, however, the QIP does not directly overlap with any of the quality measures being used in PRIME, but are designed to be complementary. As a result of the EPP, Kern Medical recorded indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$48,644,000 and \$21,935,000 for the years ended June 30, 2022 and 2021, respectively. Approximately \$65,218,000 and \$42,534,000 of amounts receivable are included in the overall balance due from governmental agencies in the accompanying statements of net position as of June 30, 2022 and 2021, respectively. As a result of the QIP, Kern Medical recorded indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$97,612,000 and \$40,573,000 for the years ended June 30, 2022 and 2021, respectively. Approximately \$99,952,000 and \$47,125,000 of amounts receivable are included in the overall balance due from governmental agencies in the accompanying statements of net position as of June 30, 2022 and 2021, respectively.

Graduate Medical Education Program (GME) – Historically, only Medicare has reimbursed hospitals for Graduate Medical Education (GME) expenses. In March 2020, CMS formally approved the Medi-Cal GME State Plan Amendment, which will provide \$150 million of new federal funds to the Public Hospital System to support GME. The payments are retroactive to January 2017. Payments were expedited, allowing Kern Medical to capture some of the retroactive payments during FY 2020. This is an IGT based program; therefore, to take advantage of the funding, hospitals are required to put up IGT funds and small administrative fees. The IGT funds are matched by the federal government at a 50% federal medical assistance percentage rate. Kern Medical recorded indigent patient care funding revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$4,088,000 and \$5,968,000 for the years ended June 30, 2022 and 2021, respectively. The revenue amount recognized for the year ended June 30, 2021, relates to the year ended June 30, 2021. Of the revenue amount recognized for the year ended June 30, 2020, approximately \$8,616,000 relates to the year ended June 30, 2019 and prior. Approximately \$1,386,000 and \$2,536,000 of amounts receivable are included in the overall balance due from governmental agencies in the accompanying statements of net position as of June 30, 2022 and 2021, respectively.

Kern County Hospital Authority

Notes to Financial Statements

Note 10 – Related-Party Transactions

County funding – Kern Medical receives funds from the County as funding for providing care for inmates of Kern County jail and inmates of Kern County juvenile hall. The County Board of Supervisors approves a budgeted amount to be paid to Kern Medical. Based on the approved budgeted amount, Kern Medical recognized revenues of approximately \$30,860,000 and \$30,897,000 for the years ended June 30, 2022 and 2021, respectively. These revenues have been classified as county funding revenue in the accompanying statements of revenues, expenses, and changes in net position. As of June 30, 2022 and 2021, Kern Medical recorded amounts receivable of approximately \$3,875,000 and \$1,899,000, respectively, from the County’s General Fund for these services classified in other receivables in the accompanying statements of net position.

Kern Medical provides health care services to Medically Indigent Adults as provided under Section 17000 of the Health and Safety regulations under the State of California. Reimbursement for the services is provided by the County’s General Fund through the use of State Health and Welfare Realignment Revenues. Based on the approved budgeted amount, Kern Medical recognized county funding revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$3,422,000 for the years ended June 30, 2022 and 2021. As of June 30, 2022 and 2021, there were no amounts due from the County’s General Fund for these services.

Service agreements – Kern Medical has entered into various annual service agreements with two related-party organizations since 2016, whereby the related-party organizations will provide support services related to finance and accounting, information technology, human resources, and organizational advancement at a set monthly fee plus any additional services, costs, or expenses pre-approved by Kern Medical. During the years ended June 30, 2022 and 2021, Kern Medical paid approximately \$10,057,000 and \$10,095,000 for support services, respectively. As of June 30, 2022 and 2021, Kern Medical owed no amounts to the related-party organizations for these services.

Note 11 – Pension Plan

General Information About the Pension Plans

Plan descriptions – The County of Kern’s Board of Supervisors established the Kern County Employees’ Retirement Association (KCERA) under the provisions of the County Employees’ Retirement Law of 1937 (CERL) on January 1, 1945. All permanent employees of the County of Kern, Kern Medical, and thirteen related agencies are covered by KCERA, which operates as a cost-sharing multi-employer defined benefit plan. KCERA has the responsibility to function as an investment and administrative agent for the County of Kern with respect to the pension plan. KCERA became independent from the County’s supervision and control as a result of the 1992 passage of Proposition 162, which legally established the independent control of the Board of Retirement. Separate audited financial statements can be obtained through KCERA at 11125 River Run Boulevard, Bakersfield, California 93311. Management of the KCERA plan is vested with the Board of Retirement, which consists of nine members and two alternates.

Note 11 – Pension Plan (continued)

The Board of Retirement establishes policy for the operation of the plan, considers applications for disability retirement, recommends contributions on the basis of actuarial valuations, and controls investments of assets. Prior to January 1, 1996, the Kern County Treasurer-Tax Collector was responsible for financial reporting and accounting for all investments as required by Government Code Section 31596 et seq., as amended. On January 11, 1987, the Board of Retirement authorized the retirement fund to incur an administrative expense and hire an Administrator to serve at the Board of Retirement's pleasure. The Administrator is responsible for the processing and computing of applications for retirement benefits, refunds, beneficiary allowances, death benefits, reciprocity, and any other duties the Board of Retirement may assign. The Administrator also acts as Secretary for all Board of Retirement and Committee meetings and performs other activities as directed by the Board of Retirement. The KCERA Plan provides for retirement, disability, death, beneficiary, and cost-of-living benefits.

All regular full-time employees of the County of Kern or contracting districts, including Kern Medical, who work 50% or more of their regular standard hours required become members of KCERA effective on the first day of the payroll period following the date of hire.

General Tier I and Tier II members are eligible to retire at age 70 regardless of service or at age 50 with 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. General Tier III members are eligible to retire at age 70 regardless of service or at age 52 with 5 or more years of retirement service credit. The retirement benefit the member will receive is based on age at retirement, final average compensation, years of retirement service credit, and benefit tier.

The amount of such monthly benefit is determined as a percentage of their final monthly compensation and is based on age at retirement and the number of years of service. The final monthly compensation is the monthly average of the final 12 months' compensation, or, if the member so elects, any other continuous 12-month period in the member's work history. If hired on or after January 1, 2013, the final compensation is measured over a period of 36 months.

An annual 2% cost-of-living adjustment (COLA) for all retirees and continuance beneficiaries was adopted as of April 1, 1973. The liability for this annual retirement benefit increase was funded entirely from the unreserved fund balance until February 5, 1983. After this date (as recommended by the plan's Independent Actuary, adopted by KCERA Board of Retirement, and approved by the County Board) and prior to fiscal year 2003, funding the 2% COLA was included in the employers' contribution. COLA for all retirees and continuance beneficiaries was increased to 2.5% effective April 1, 2002.

Kern County Hospital Authority

Notes to Financial Statements

Note 11 – Pension Plan (continued)

The Memorandum of Understanding (MOU) adopted March 2012 between the County and its general employees states that all general members hired prior to the first day of payroll period 2004-16 shall start to pay, in the second year of the agreement, one-sixth of the employee's normal contribution to retirement. In the third year, the employee's normal contribution will increase to one-third. All general members hired on or after the first day of payroll period 2005-16 shall pay 100% of the new employee's normal contribution to retirement. The County Administrative Office negotiated an agreement with the Central California Association of Public Employees (CCAPE) adopting Government Code Section 31676.17 which provides enhanced retirement benefits, commonly known as 3% at 60, for General members, in August 2004.

Basis of accounting – KCERA follows GASB accounting principles and reporting guidelines. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of KCERA. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds of prior contributions are recognized when due and payable in accordance with the terms of KCERA.

Fair valuation of investments – Fair value for investments is derived by various methods as indicated in the following table:

Publicly traded stocks	Most recent exchange closing price. International securities reflect currency exchange rates in effect as of June 30, 2021.
Short-term investments and bonds	Institutional evaluations or priced at par.
OTC securities	Evaluations based on good faith opinion as to what a buyer in the marketplace would pay for a security.
Commingled funds	Net asset value provided by the investments manager.
Alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.
Private equity real estate investments	Estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Investments without a public market are valued based on assumptions made and multiple valuation techniques used by the investment manager.

Contributions – As a condition of participation under the provisions of CERL, members are required to contribute to KCERA a percentage of their salaries. Member contribution rates for fiscal year 2022 ranged from 4.72% to 19.29% and were applied to the member's base pay plus pensionable special pays. For general members hired prior to 2013, contribution rates were determined by benefit tier and KCERA entry age. The contribution rates of general members who first joined KCERA on or after January 1, 2013, are at least 50% of the normal cost rate. Furthermore, the rate of members integrated with Social Security is reduced by one-third on the first \$161 of biweekly salary.

Kern County Hospital Authority Notes to Financial Statements

Note 11 – Pension Plan (continued)

Interest is credited to member contributions semi-annually on June 30 and December 31, in accordance with Article 5.5 of the CERL. Member contributions and credited interest are refundable upon termination of membership.

Each year, an actuarial valuation is performed for the purpose of determining the funded ratio of the retirement plan and the employer contributions that are necessary to pay benefits accruing to KCERA members that were not otherwise funded by member contributions or investment earnings. The employer contribution rates are actuarially determined by using the Entry Age Normal Actuarial Cost method. Employer rates include the “normal cost” and an annual amortization payment toward the Plan’s unfunded actuarial accrued liability. Contribution rates determined in each actuarial valuation (as of June 30) apply to the fiscal year beginning 12 months after the valuation date. Employer rates for fiscal year 2022 ranged from 36.02% to 76.64% of covered payroll. Contributions to the pension plan from Kern Medical were approximately \$38,713,000 and \$38,354,000 for the years ended June 30, 2022 and 2021, respectively.

Actuarial assumptions – The total pension liabilities in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value projected benefit payments attributable to past periods of service for current and inactive employees.

Inflation	2.75%
Projected salary increases	General: 4.00% to 8.75% and Safety: 3.75% to 12.50%, varying by service, including inflation.
COLA increases	2.50% (actual increases contingent upon CPI increases with a 2.50% maximum).
Administrative expenses	0.90% of payroll allocated to both the employer and member based on the components of the total contribution rate (before expenses) for the employer and member.
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation.
Mortality	Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tavel (separate tables for males and females) with rates increased by 15% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

Kern County Hospital Authority

Notes to Financial Statements

Note 11 – Pension Plan (continued)

The total pension liability as of June 30, 2022, was determined by an actuarial valuation as of June 30, 2021. The total pension liability as of June 30, 2021, was determined by an actuarial valuation as of June 30, 2020. The actuarial assumptions for the June 30, 2022 and 2021 actuarial reports were based on the results of an experience study for the period July 1, 2016 through June 30, 2019.

The Entry Age Normal Actuarial Cost method used in KCERA's annual actuarial valuation has also been applied in measuring the service cost and TPL with one exception. For purposes of measuring the service cost and TPL, KCERA has reflected the same plan provisions used in determining the member's actuarial present value of projected benefits. This is different from the version of this method applied in KCERA's annual funding valuation, where the normal cost and actuarial-accrued liability are determined as if the current benefit accrual rate had always been in effect.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns net of pension plan investment expenses and inflation) are developed for each major asset class. This data is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized below:

	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	37.00 %	6.51 %
Core fixed income	14.00	1.09
High yield corporate credit	6.00	3.38
Emerging market debt blend	4.00	3.41
Commodities	4.00	3.08
Core real estate	5.00	4.59
Private real estate	5.00	9.50
Midstream	5.00	8.20
Capital efficiency alpha pool	5.00	2.40
Hedge funds	10.00	2.40
Private equity	5.00	9.40
Private credit	5.00	5.60
Cash	(5.00)	0.00

Discount rate – The discount rates used in the actuarial valuation of the total pension liability as of June 30, 2022 and 2021, were both 7.25%. The projection of cash flows used to determine the discount rates assumed member contributions would be made at the current contribution rate and that employer contributions would be made at rates equal to the actuarially determined contribution rates.

Kern County Hospital Authority
Notes to Financial Statements

Note 11 – Pension Plan (continued)

For this purpose, only employee and employer contributions intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the actuarial valuation of the total pension liability as of June 30, 2022.

The discount rate assumptions have been developed without taking into consideration any impact of the 50/50 allocation of future excess earnings between the retirement and Supplement Retirement Benefit Reserve (SRBR) asset pools.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability as of June 30, 2022, calculated using a discount rate of 7.25%, and what the net pension liability would be if it were calculated using a discount rate that is one point lower (6.25%) or one point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Kern Medical's proportionate share of the net pension liability	\$ 428,082,373	\$ 284,243,193	\$ 165,957,883

Pension fund fiduciary net position – Detailed information about the pension fund’s fiduciary net position is available in the separately issued KCERA annual report.

Pension liabilities, pension expenses, and deferred outflows/inflows of resources related to pensions – Kern Medical’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. As of June 30, 2022, Kern Medical reported a liability of approximately \$284,243,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The net pension liability for each membership class is the total pension liability minus the Plan’s Fiduciary Net Position. The total pension liability for each membership class is obtained from internal valuation results based on the actual participants in each membership class. The Plan’s Fiduciary Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ratio of the total KCERA Plan’s Fiduciary Net Position (excluding SRBR) to total KCERA valuation value of assets. Based on this methodology, any non-valuation reserves are allocated amongst the membership classes based on each membership class’ valuation value of assets. Kern Medical’s proportion of the net pension liability was based on a projection of Kern Medical’s long-term share of contributions to the pension plan relative to the projected contributions of all participating County departments and agencies, actuarially determined. As of June 30, 2022, Kern Medical’s proportion was 15.04%, which was an increase of 0.73% from its proportion measured as of June 30, 2021.

Kern County Hospital Authority

Notes to Financial Statements

Note 11 – Pension Plan (continued)

For the years ended June 30, 2022 and 2021, Kern Medical recognized pension expense of approximately \$20,757,000 and \$43,731,000, respectively. Pension expense represents the change in net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or methods, and plan benefits. As of June 30, 2022 and 2021, Kern Medical reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (10,038,542)
Changes in assumptions	14,443,317	-
Net difference between projected and actual earnings on pension plan investments	-	(64,502,597)
Changes in proportion and differences between Kern Medical contributions and proportionate share of contributions	29,951,753	(1,112,176)
Kern Medical contributions subsequent to the measurement date	48,223,726	-
Total	<u>\$ 92,618,796</u>	<u>\$ (75,653,315)</u>
	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (15,379,513)
Changes in assumptions	23,513,148	-
Net difference between projected and actual earnings on pension plan investments	25,313,397	-
Changes in proportion and differences between Kern Medical contributions and proportionate share of contributions	25,470,537	(11,222,863)
Kern Medical contributions subsequent to the measurement date	46,187,430	-
Total	<u>\$ 120,484,512</u>	<u>\$ (26,602,376)</u>

Kern County Hospital Authority
Notes to Financial Statements

Note 11 – Pension Plan (continued)

Deferred outflows and deferred inflows of resources above represent the unamortized portion of changes to the total pension liability to be recognized in future periods in a systematic and rational manner. Approximately \$48,224,000 and \$46,187,000 reported as deferred outflows of resources relate to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability during the years ended June 30, 2022 and 2021, respectively. Other amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Years Ended June 30,	
2023	\$ (2,426,670)
2024	(3,504,791)
2025	(6,092,266)
2026	(18,719,140)
2027	-
	<u>\$ (30,742,867)</u>

The changes in net pension liability obligation are as follows as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Beginning net pension liability	\$ 381,152,811	\$ 322,103,797
Pension expense	20,756,810	43,203,179
Employer contributions	(38,713,478)	(38,354,347)
Deferred outflows of resources – change in assumptions	(2,548,256)	21,675,654
Deferred inflows of resources – differences between expected and actual earnings on investments	(87,123,183)	17,776,196
Deferred inflows of resources – differences between expected and actual experience	(1,949,637)	(3,435,198)
Deferred outflows of resources – changes in proportion and differences between Kern Medical contributions and proportionate share of contributions	<u>12,668,126</u>	<u>18,183,530</u>
Ending net pension liability	<u>\$ 284,243,193</u>	<u>\$ 381,152,811</u>

Kern County Hospital Authority

Notes to Financial Statements

Note 12 – Physician Employee Retirement Plan

Kern Medical, through the County, contributes to the Kern County Physician Employee Retirement Plan (the “Plan”), a defined contribution plan. The Plan covers salaried physicians in the employment of the County, except physicians employed under Civil Service and physicians employed and paid on an hourly basis. Kern Medical contributions for each plan year (as defined in the Plan Document) under the amended and restated Plan Document shall be as follows: Kern Medical shall contribute as Kern Medical’s required contribution the sum of \$17,500 for the account of Core Physician for each completed Plan Year of service (as defined in the Plan Document) by Core Physician. Participants are allowed to make voluntary contributions to the Plan. All amounts contributed are vested immediately. Kern Medical contributed approximately \$1,709,000 and \$1,716,000 to the Plan during the years ended June 30, 2022 and 2021, respectively. Audited financial statements for the Plan may be obtained through the Kern County Auditor-Controller-County Clerk, 1115 Truxtun Avenue, Bakersfield, California 93301.

Note 13 – Post-Retirement Health Care Benefits

Plan description – In addition to the pension benefits described in Note 11, the County and its Special Districts (including Kern Medical) provide post-retirement health care benefits in accordance with union contracts and Board of Supervisors’ order. The post-retirement health care benefits are provided through a cost-sharing multiple-employer postemployment health benefit (OPEB) plan established in an irrevocable trust administered by Public Agency Retirement Services (PARS). PARS issues a separate annual financial report that can be obtained by writing to PARS at 4350 Von Karman Ave., Suite 100, Newport Beach, California 92660.

Benefits provided – The OPEB plan provides post-retirement health care through two programs in accordance with union contracts and Board orders.

1. The Retiree Health Premium Supplement Program (RHPSP) provides benefits to employees who: 1) elected to participate or were required to participate, 2) retire on or after July 1, 1990, 3) are between the ages of 50 and 64, and 4) have at least 20 years of continuous County service as a permanent employee. The supplement amount is permanently fixed once determined and, depending on years of service, is equal to 50-100% of the active employee monthly health premium for a single individual at the time of retirement.
2. The Retiree Health Stipend (RHS) provides a stipend to employees who choose continuous County health coverage upon retirement. The monthly stipend paid on behalf of each retiree is a maximum of \$39.75 for single coverage, \$53.69 for two-party coverage, and \$61.50 for family coverage, limited to the cost of the plan selected.

Contributions – Kern Medical’s Actuarially Determined Contribution (ADC) rate is based off an employer portion and employee portion with Kern Medical contributing all of the RHS portion. The employee contribution for the RHPSP is 2.12% of covered payroll for a majority of the employee union contracts. Employee and employer contributions to the OPEB plan from Kern Medical were approximately \$472,000 and \$451,000, respectively, for the year ended June 30, 2022.

Kern County Hospital Authority
Notes to Financial Statements

Note 13 – Post-Retirement Health Care Benefits (continued)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources relating to OPEB – As of June 30, 2022 and 2021, Kern Medical reported a liability of approximately \$7,217,000 and \$1,654,000, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022 and 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of these dates. Kern Medical's proportion of the net OPEB liability was based on the proportion of total OPEB liability for each group, calculated according to classification in census data. As of June 30, 2022 and 2021, Kern Medical's proportion was 9.781% and 8.25%, respectively.

For the years ended June 30, 2022 and 2021, Kern Medical recognized OPEB expense of approximately \$269,000 and \$(486,000), respectively. As of June 30, 2022 and 2021, Kern Medical reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between Kern Medical contributions and proportionate share of contributions	\$ 1,248,914	\$ (512,431)
Difference between expected and actual experience	-	(2,571,098)
Net difference between actual over projected earnings on OPEB plan investments	796,430	-
Changes in assumptions	4,732,251	(517,954)
Total	\$ 6,777,595	\$ (3,601,483)
	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between Kern Medical contributions and proportionate share of contributions	\$ 754,706	\$ (797,114)
Difference between expected and actual experience	-	(1,189,067)
Net difference between actual over projected earnings on OPEB plan investments	-	(1,003,914)
Changes in assumptions	205,570	(540,153)
Total	\$ 960,276	\$ (3,530,248)

Kern County Hospital Authority

Notes to Financial Statements

Note 13 – Post-Retirement Health Care Benefits (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended June 30,	
2023	\$ (254,121)
2024	(349,058)
2025	(691,640)
2026	(1,047,001)
2027	(679,651)
Thereafter	<u>(153,641)</u>
	<u>\$ (3,175,112)</u>

Actuarial methods and assumptions – The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Payroll growth	Inflation of 2.75% per year plus "across the board" real salary increases of 0.50% per year.
Mortality	Pub-2010 General Healthy Retiree Headcount-Weighted Mortality Table, projected generationally with two-dimensional MP-2019 projection scale.
Discount rate	6.50%. Based on asset allocation in PARS OPEB Trust and understanding that the County of Kern is contributing \$59 per pay period per eligible employee and eligible employees are contributing 2.12% of payroll.
Healthcare cost trend rates	
Supplement	4.25% to 2023/2024, then 8.00% to 2024/2025 grading down by 0.50% per year to an ultimate rate of 4.50%
Stipend	0.00%

The non-health actuarial assumptions used in the June 30, 2022 and 2021 valuations were based on the KCERA Experience Study dated August 3, 2020, for the period July 1, 2016 through June 30, 2019.

Kern County Hospital Authority
Notes to Financial Statements

Note 13 – Post-Retirement Health Care Benefits (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity – large cap core	29 %	6.72 %
Equity – mid cap core	4	6.72
Equity – small cap core	9	6.72
Equity – international	6	7.12
Equity Emerging Market	3	8.82
Real Estate	2	4.22
Fixed income – intermediate term bond	37	0.72
Alternatives	5	3.07
Cash	5	0.22

Discount rate – The discount rate used to measure the Total OPEB Liability (TOL) was 6.50% as of June 30, 2022 and 2021. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at a flat \$52 per eligible employee per pay period. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the TOL as of June 30, 2022.

Sensitivity of the Net OPEB Liability to changes in the discount rate – The following presents the County’s proportionate share of the net OPEB liability, as well as what the County’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current discount rate:

Sensitivity due to change in discount rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net OPEB liability	\$ 8,692,432	\$ 7,216,964	\$ 5,885,274

Kern County Hospital Authority

Notes to Financial Statements

Note 13 – Post-Retirement Health Care Benefits (continued)

Sensitivity of the Net OPEB liability to changes in the health care cost trend rates – The following presents Kern Medical’s proportionate share of the net OPEB liability, as well as what Kern Medical’s proportionate share of the net OPEB liability would be if it were calculated using health care cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

Sensitivity due to change in healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Trend Rates*</u>	<u>1% Increase</u>
Net OPEB liability	\$ 5,863,388	\$ 7,216,964	\$ 8,782,913

*See actuarial methods and assumptions table for current trend rates

Note 14 – Self-Insurance Programs

Medical malpractice claims – Kern Medical is self-insured for medical malpractice claims for the first \$2,000,000 per incident, with a \$10,000,000 total maximum policy limitation. Kern Medical also maintains excess liability coverage for claims in excess of total maximum policy limitation. Insurance coverage is on a claims-made basis.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on Kern Medical’s past experience as well as other considerations, including the nature of the claim or incident and relevant trend factors. Losses from asserted and unasserted claims identified under Kern Medical’s incident reporting system are actuarially determined based on Kern Medical’s past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. These unpaid claim liabilities were discounted at 3.5% in both 2022 and 2021, to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that this estimate could change materially in the near term.

A reconciliation for professional liability claims (including claims incurred but not reported) for the years ended June 30 are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 7,869,176	\$ 6,196,624	\$ 6,572,637
Current year claims incurred and changes in estimates for claims incurred in prior periods	(302,105)	2,492,552	(89,699)
Claims and expenses paid	<u>(1,800)</u>	<u>(820,000)</u>	<u>(286,314)</u>
Balance, end of year	<u>\$ 7,565,271</u>	<u>\$ 7,869,176</u>	<u>\$ 6,196,624</u>

Kern County Hospital Authority
Notes to Financial Statements

Note 14 – Self-Insurance Programs (continued)

Workers’ compensation claims – Under the California Unemployment and Workers’ Compensation Insurance provisions, Kern Medical has elected to pay the actual claims filed for unemployment and workers’ compensation benefits. Reinsurance policies have been purchased by Kern Medical for claims incurred above selected retention levels for a small portion of enrolled members. The liability associated with the self-insurance policies of Kern Medical is based upon Kern Medical’s historical trend analysis and includes amounts for claims incurred but not reported.

A reconciliation for workers’ compensation claims (including claims incurred but not reported), for the years ended June 30 are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 6,073,555	\$ 6,272,984	\$ 7,807,204
Current year claims incurred and changes in estimates for claims incurred in prior periods	(660,887)	(103,253)	(1,400,629)
Claims and expenses paid	<u>(80,258)</u>	<u>(96,176)</u>	<u>(133,591)</u>
Balance, end of year	<u>\$ 5,332,410</u>	<u>\$ 6,073,555</u>	<u>\$ 6,272,984</u>

Note 15 – Deferred Compensation

Kern Medical offers its employees a deferred compensation plan created by the County in accordance with IRC Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Amounts accumulated under the plan have been invested in several investment options at the direction of the employee.

In accordance with requirements of IRC Section 457 and the Small Business Job Protection Act of 1996, the assets in the plan were transferred to a trust as approved by the County Board of Supervisors. The trust holds the plan assets for the exclusive benefit of the participants and their beneficiaries.

Completed financial statements for the Deferred Compensation Plan may be obtained from the Office of the Kern County Treasurer-Tax Collector located at 1115 Truxtun Avenue, Bakersfield, California 93301.

Note 16 – Commitments and Contingencies

Litigation – Kern Medical is the subject of certain claims and assessments arising in the normal course of its operations. In certain instances, these matters have been tried and awards have been submitted by the respective juries and/or courts.

Kern County Hospital Authority

Notes to Financial Statements

Note 16 – Commitments and Contingencies (continued)

The County, along with seven other counties, is the plaintiff in a case regarding Medi-Cal outpatient payment rates for current and prior services. The complaint is that the DHS did not comply with certain federal and state requirements in setting current and prior outpatient payment rates. The case was settled during the 2005 year in the County's favor and Kern Medical received one-half of the settlement amount. The other half is contingent upon the Federal government's provision of Federal financial participation for the settlement. Therefore, Kern Medical has not accrued any amounts as a result of this settlement.

Regulatory matters – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program requirements, and reimbursements for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes 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 Kern Medical is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory action unknown or unasserted at this time.

In addition, Kern Medical is subject to changes in government legislation that could impact Medicare and Medi-Cal payment levels and is also subject to increased levels of managed care penetration and changes in payer patterns that may impact the level and timing of payments for services rendered.

Final determination of amounts earned under prospective payment and cost reimbursement activities is subject to review by appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments that could result from such reviews.

Note 17 – Construction and Seismic Standards

Under current California laws, Kern Medical's facilities must comply with specific provisions related to structural and nonstructural seismic standards. These laws generally required hospitals to retrofit, remodel, or upgrade several buildings before 2013, subject to legislative changes and certain available exemptions. Kern Medical is currently working on improvements to noncompliant buildings in order to receive exemptions available under current legislation through 2030. Preliminary cost estimates have been generated for the plan. Kern is currently working to obtain grant funds for the seismic upgrades.

Kern County Hospital Authority Notes to Financial Statements

Note 18 – Leases

Kern Medical is a lessee for noncancellable leases of building space and equipment with lease terms through 2029. There are no residual value guarantees included in the measurement of Kern Medical's lease liability nor recognized as an expense for the years ended June 30, 2022 and 2021. Kern Medical does not have any commitments that were incurred at the commencement of the leases. Kern Medical is subject to variable equipment usage payments that are expensed when incurred. There were no amounts recognized as variable lease payments as lease expense on the statement of changes of net position for the years ended June 30, 2022 and 2021. No termination penalties were incurred during the fiscal year.

Kern Medical has the following right-to-use activities as of June 30, 2022:

	July 1	Additions	Deletions	June 30
GOVERNMENTAL ACTIVITIES				
Right-to-use assets				
Building	\$ 10,266,761	\$ -	\$ -	\$ 10,266,761
Equipment	1,313,236	1,509,582	-	2,822,818
Total right-to-use assets	<u>11,579,997</u>	<u>1,509,582</u>	<u>-</u>	<u>13,089,579</u>
Less accumulated amortization				
Building	1,913,813	1,913,813	-	3,827,626
Equipment	480,872	816,356	-	1,297,228
Net right-to-use assets	<u>\$ 9,185,312</u>	<u>\$ (1,220,587)</u>	<u>\$ -</u>	<u>\$ 7,964,725</u>

Kern Medical has the following right-to-use activities as of June 30, 2021:

	July 1	Additions	Deletions	June 30
GOVERNMENTAL ACTIVITIES				
Right-of-use assets				
Building	\$ 10,266,761	\$ -	\$ -	\$ 10,266,761
Equipment	1,313,236	-	-	1,313,236
Total right-to-use assets	<u>11,579,997</u>	<u>-</u>	<u>-</u>	<u>11,579,997</u>
Less accumulated amortization				
Building	-	1,913,813	-	1,913,813
Equipment	-	480,872	-	480,872
Net right-to-use assets	<u>\$ 11,579,997</u>	<u>\$ (2,394,685)</u>	<u>\$ -</u>	<u>\$ 9,185,312</u>

Kern Medical recognized approximately \$2,730,000 and \$2,395,000 in amortization expense as of June 30, 2022 and 2021, respectively. Amortization expense is included in the depreciation and amortization expense on the Statements of Revenues, Expenses, and Changes in Net Position.

Kern County Hospital Authority
Notes to Financial Statements

Note 18 – Leases (continued)

The future principal and interest lease payments as of June 30, 2022, were as follows:

	Principal	Interest	Total
Year Ending June 30,			
2023	\$ 2,880,245	\$ 230,045	\$ 3,110,290
2024	2,001,774	157,264	2,159,038
2025	1,635,562	100,604	1,736,166
2026	1,197,139	56,013	1,253,153
2027	741,322	25,683	767,005
2028-2029	473,524	15,274	488,798
	\$ 8,929,566	\$ 584,883	\$ 9,514,450

Kern Medical evaluated the right-to-use assets for impairment and determined there was no impairment for the year ended June 30, 2022.

Required Supplementary Information

**Kern County Hospital Authority
Other Post-Employment Benefits
Schedule of the Proportionate Share
of the Net OPEB Liability for Kern Medical**

Last 10 Fiscal Years*

Reporting Date for Employer under GASB 75 as of June 30	Measurement Date as of June 30	Proportion of the Net OPEB Liability	Proportionate Share of Net OPEB Liability	Covered-employee Payroll	Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	2018	7.2%	\$ 4,306,044	\$ 48,177,262	8.9%	56.6%
2019	2019	7.5%	\$ 3,772,716	\$ 49,863,466	7.6%	62.7%
2020	2020	8.1%	\$ 3,753,255	\$ 27,390,597	13.7%	66.0%
2021	2021	8.2%	\$ 1,653,757	\$ 26,173,524	6.3%	84.9%
2022	2022	9.8%	\$ 7,216,964	\$ 23,920,585	30.2%	57.5%

*Based on the total covered employee payroll for employees classified as Kern Medical in the census data. Fiscal year 2018 was the first year of implementation; therefore, only five years are presented.

**Kern County Hospital Authority
Pension Plan
Schedule of the Proportionate Share
of the Net Pension Liability for Kern Medical**

Last 10 Fiscal Years*

Reporting Date for Employer under GASB 68 as of June 30	Proportion of the Net Pension Liability	Proportionate Share of Net Pension Liability	County's Covered-employee Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	16.18%	\$ 343,748,412	\$ 75,331,439	456.31%	59.59%
2015	15.97%	\$ 330,492,938	\$ 77,008,989	429.16%	63.49%
2016	17.17%	\$ 345,262,534	\$ 81,925,123	421.44%	62.20%
2017	15.06%	\$ 329,935,454	\$ 78,433,199	420.66%	59.82%
2018	12.41%	\$ 293,255,458	\$ 78,815,070	372.08%	62.49%
2019	13.18%	\$ 307,234,709	\$ 89,068,706	344.94%	64.19%
2020	13.52%	\$ 322,103,797	\$ 93,857,773	343.18%	64.43%
2021	14.32%	\$ 381,152,811	\$ 104,248,078	365.62%	62.00%
2022	15.04%	\$ 284,243,193	\$ 107,477,006	264.47%	73.38%

*Fiscal year 2014 was the first year of implementation; therefore, only nine years are presented.

**Kern County Hospital Authority
Pension Plan
Schedule of Contributions for Kern Medical**

Last 10 Fiscal Years*

Reporting Date for Employer under GASB 68 as of June 30	Actuarially Determined Contribution	Kern Medical's Contribution	Contribution Deficiency (Excess)	Kern Medical's Covered-employee Payroll	Contributions as a Percentage of Covered-employee Payroll
2015	\$ 34,286,046	\$ 34,286,046	\$ -	\$ 77,008,989	44.52%
2016	\$ 30,093,110	\$ 30,093,110	\$ -	\$ 81,925,123	36.73%
2017	\$ 26,222,853	\$ 26,222,853	\$ -	\$ 78,433,199	33.43%
2018	\$ 28,411,580	\$ 28,411,580	\$ -	\$ 78,815,070	36.05%
2019	\$ 30,922,108	\$ 30,922,108	\$ -	\$ 89,068,706	34.72%
2020	\$ 29,801,356	\$ 29,801,356	\$ -	\$ 93,857,773	31.75%
2021	\$ 38,354,347	\$ 38,354,347	\$ -	\$ 104,248,078	36.79%
2022	\$ 38,713,478	\$ 38,713,478	\$ -	\$ 107,477,006	36.02%

*Fiscal year 2015 was the first year this schedule was required; therefore, only eight years are presented.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Governors
Kern County Hospital Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kern County Hospital Authority (the “Authority” or “Kern Medical”), which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Kern County Hospital Authority’s basic financial statements, and have issued our report thereon dated February 1, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kern County Hospital Authority’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kern County Hospital Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of Kern County Hospital Authority’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 financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California
February 1, 2023

