



December 8, 2023

TO: Legal Counsel

News Media

Salinas Californian

El Sol

Monterey County Herald

Monterey County Weekly

KION-TV

KSBW-TV/ABC Central Coast

KSMS/Entravision-TV

The next regular meeting of the **CORPORATE COMPLIANCE AND AUDIT - COMMITTEE OF THE WHOLE** of **SALINAS VALLEY HEALTH¹** will be held **TUESDAY, DECEMBER 12, 2023, AT 5:00 P.M., DOWNING RESOURCE CENTER, CEO CONFERENCE ROOM, ROOM 117, SALINAS VALLEY HEALTH MEDICAL CENTER, 450 E. ROMIE LANE, SALINAS, CALIFORNIA** or via **TELECONFERENCE** (*visit [SalinasValleyHealth.com/virtualboardmeeting](https://www.SalinasValleyHealth.com/virtualboardmeeting) for Access Information*).

A handwritten signature in black ink, appearing to read "Allen Radner".

Allen Radner, MD
Interim President/Chief Executive Officer

¹ Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

Committee Members: Juan Cabrera, Chair; Catherine Carson, Vice Chair; Allen Radner, MD, Interim President/CEO; Augustine Lopez, CFO; Mike Nolan, Community Member; and Sanjeev Tandon, Community Member

**CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING
DECEMBER 2023 - COMMITTEE OF THE WHOLE
SALINAS VALLEY HEALTH¹**

TUESDAY, DECEMBER 12, 2023, 5:00 P.M.

DOWNING RESOURCE CENTER, CEO CONFERENCE ROOM 117

Salinas Valley Health Medical Center

450 E. Romie Lane, Salinas, California

or via Teleconference

(Visit [SalinasValleyHealth.com/virtualboardmeeting](https://www.SalinasValleyHealth.com/virtualboardmeeting) for Access Information)

AGENDA

1. Call to Order / Roll Call

2. Public Comment

This opportunity is provided for members of the public to make a brief statement, not to exceed three (3) minutes, on issues or concerns within the jurisdiction of this District Board, which are not otherwise covered under an item on this agenda.

3. Approve Minutes of the Corporate Compliance and Audit Committee Meeting of September 26, 2023 (RADNER)

- Public Comment
- Motion/Second
- Action by Committee/Roll Call Vote

4. Consider Recommendation for Board of Directors Approval of the Years Ended June 30, 2023 and 2022 Draft Audited Financial Statements for Salinas Valley Memorial Healthcare System. Consider Recommendation for Board of Directors Approval of the Year Ended June 30, 2023 Draft Single Audit Report for Salinas Valley Memorial Healthcare System. (LOPEZ/CLEVELAND/CHRIS PRITCHARD & KIMBERLY SOKOLOFF of MOSS ADAMS)

- Staff Report
- Questions to Board President/Staff
- Public Comment
- Board Discussion/Deliberation
- Motion/Second
- Action by Board/Roll Call Vote

5. Consider Recommendation for Board of Directors Approval of the Years Ended December 31, 2022 and 2021 Draft Audited Financial Statements for the Salinas Valley Memorial Healthcare District Employee's Pension Plan. (LOPEZ/CLEVELAND/KORY HOGGAN of MOSS ADAMS)

- Staff Report
- Questions to Board President/Staff
- Public Comment
- Board Discussion/Deliberation
- Motion/Second
- Action by Board/Roll Call Vote

¹Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

- 6. Closed Session
- 7. Reconvene Open Session/Closed Session Report
- 8. Adjournment

The Corporate Compliance Committee meets quarterly. The next meeting is scheduled for **March** at a time and date to be determined.

This Committee meeting may be attended by Board Members who do not sit on this Committee. In the event that a quorum of the entire Board is present, this Committee shall act as a Committee of the Whole. In either case, any item acted upon by the Committee or the Committee of the Whole will require consideration and action by the full Board of Directors as a prerequisite to its legal enactment.

The Committee packet is available at the Committee Meeting, at www.SalinasValleyHealth.com, and in the Human Resources Department of the District. All items appearing on the agenda are subject to action by the Committee.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Clerk during regular business hours at 831-759-3050. Notification received 48 hours before the meeting will enable the District to make reasonable accommodations.

**CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING
COMMITTEE OF THE WHOLE
SALINAS VALLEY HEALTH**

AGENDA FOR CLOSED SESSION

Pursuant to California Government Code Section 54954.2 and 54954.5, the board agenda may describe closed session agenda items as provided below. No legislative body or elected official shall be in violation of Section 54954.2 or 54956 if the closed session items are described in substantial compliance with Section 54954.5 of the Government Code.

CLOSED SESSION AGENDA ITEMS

REPORT INVOLVING TRADE SECRET

(Government Code §37606 & Health and Safety Code § 32106)

Discussion will concern: (Specify whether discussion will concern proposed new service, program, or facility):

Trade Secret, Strategic Planning, Proposed New Programs and Services

Estimated date of public disclosure: (Specify month and year): _____

HEARINGS/REPORTS

(Government Code §37624.3 & Health and Safety Code §§1461, 32155)

Subject matter: (Specify whether testimony/deliberation will concern staff privileges, report of medical audit committee, or report of quality assurance committee):

- 1. Compliance Program Report
- 2. FEMA Report

ADJOURN TO OPEN SESSION

CALL TO ORDER
ROLL CALL

(Chair to call the meeting to order)

PUBLIC COMMENT

SALINAS VALLEY HEALTH¹
CORPORATE COMPLIANCE AND AUDIT COMMITTEE
COMMITTEE OF THE WHOLE
MEETING MINUTES SEPTEMBER 26, 2023

Committee Members Present

In-person: Chair Juan Cabrera, Vice-Chair Catherine Carson, Pete Delgado, Augustine Lopez, and Mike Nolan

Via Teleconference: Sanjeev Tandon

Committee Members Absent: None

Other Board Members Present, Constituting Committee of the Whole: Directors Rolando Cabrera MD. and Victor Rey

1. CALL TO ORDER/ROLL CALL

A quorum was present and Chair Cabrera called the meeting to order at 5:01 p.m. in the Downing Resource Center Conference Rooms CEO Conference Room 117.

2. APPROVAL OF THE MINUTES OF THE CORPORATE COMPLIANCE AND AUDIT MEETING OF JUNE 20, 2023

Approve the minutes of the Corporate Compliance and Audit Committee for the June 20, 2023 meeting, as presented. The information was included in the Committee packet.

PUBLIC COMMENT:

No public comment.

MOTION:

Upon motion by Committee member Delgado, and second by Committee member Lopez, the June 20, 2023 minutes of the Corporate Compliance and Audit Committee were approved, as presented.

ROLL CALL VOTE:

Ayes: Chair Cabrera, Vice-Chair Carson, Delgado, Lopez, Nolan, and Tandon;

Noes: None;

Abstentions: None;

Absent: None

Motion Carried.

¹Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

3. COMPLIANCE OFFICER REPORT

Received a verbal report from Lori Oelkers, Director of Internal Audit & Compliance. Lorrie reviewed the elements of an effective compliance program, the process for anonymous reporting (including a hotline) and explained all issues are tracked and monitored until appropriate corrective action is taken and the matter is resolved.

4. PUBLIC INPUT

No public comment

5. CLOSED SESSION

Chair Juan Cabrera announced that the item to be discussed in Closed Session as listed on the posted Agenda are (1) *Reports Involving Trade Secret* and (2) *Hearings and Reports*. The meeting recessed into Closed Session under the Closed Session protocol at 5:18 p.m.

6. RECONVENE OPEN SESSION/REPORT ON CLOSED SESSION

The Committee reconvened Open Session at 5:57 p.m. Chair Cabrera reported that in Closed Session the Committee discussed as listed on the posted Agenda are (1) *Reports Involving Trade Secret* and (2) *Hearings and Reports*. No action was taken.

ADJOURNMENT

There being no other business, the meeting was adjourned at 5:58 p.m. The Corporate Compliance and Audit Committee Meeting is quarterly.

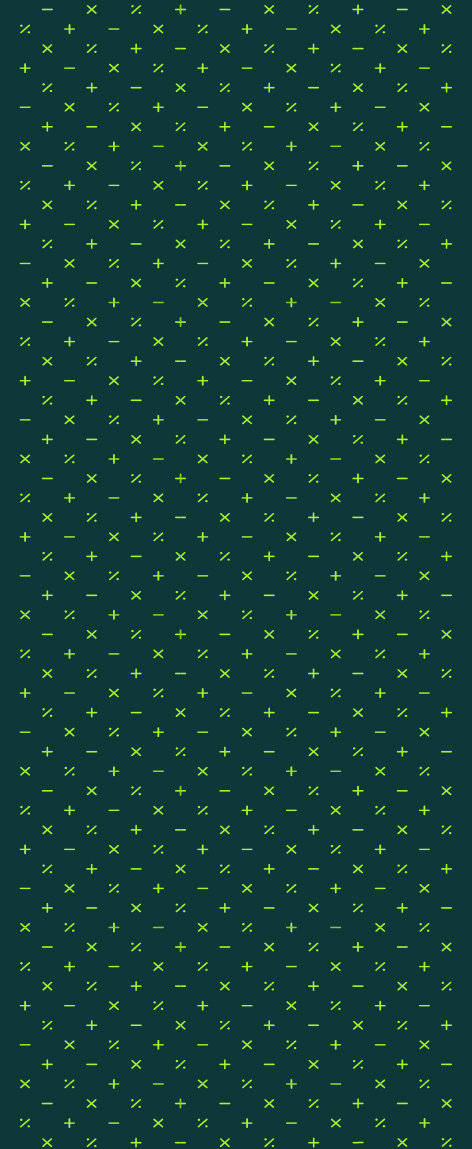
Juan Cabrera, Chair
Corporate Compliance & Audit Committee



MOSSADAMS

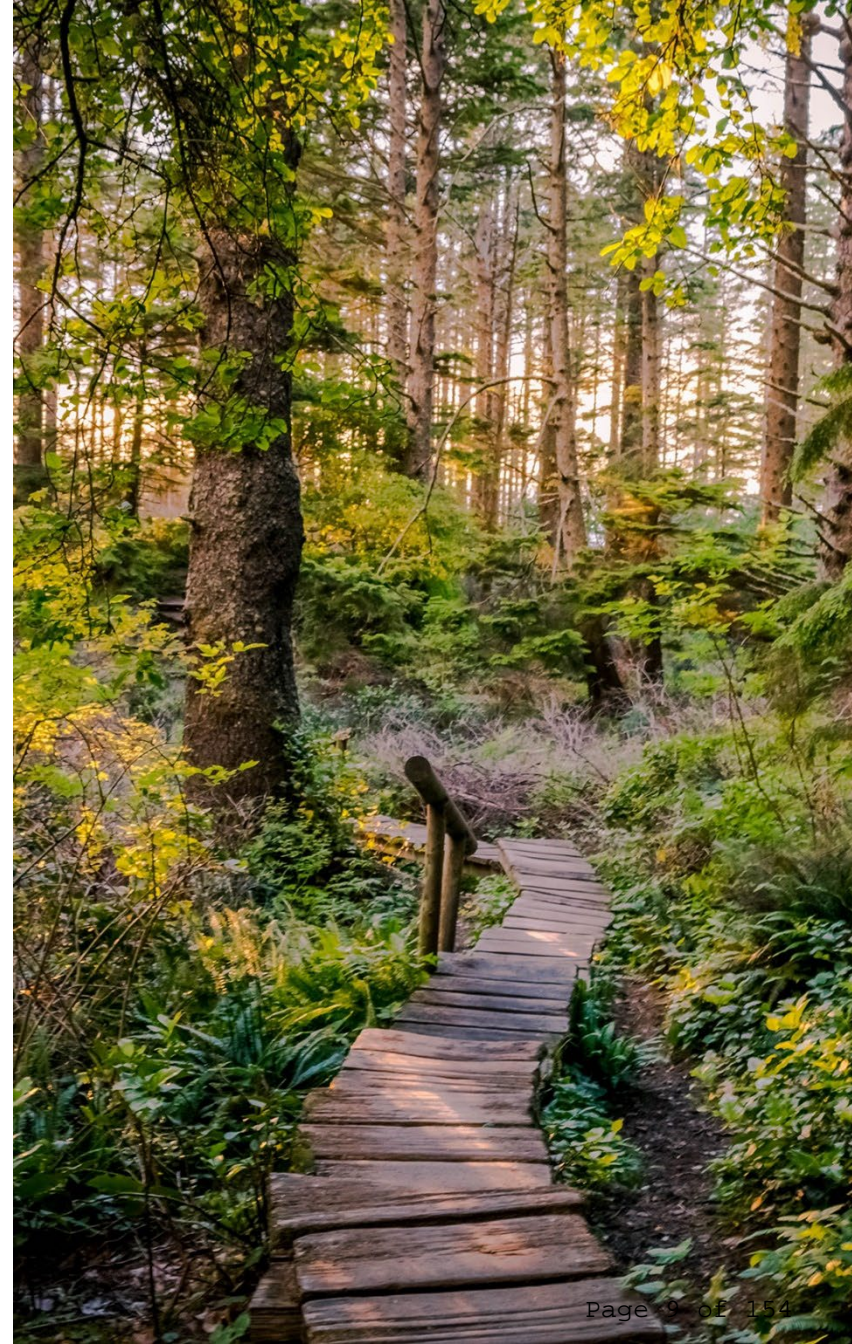
Salinas Valley Health

2023 AUDIT RESULTS



Agenda

1. Scope of Services
2. Auditor Opinion and Report
3. Significant Risks
4. Matters to be Communicated to the Governing Body
5. Consolidated Statements of Net Position
6. Consolidated Operations
7. Other Information



Scope of Services

We have performed the following services for Salinas Valley Memorial Healthcare System (“Salinas Valley Health”):

Annual Audits



- Annual consolidated financial statement audit as of and for the year ended June 30, 2023
- Annual single audit as of and for the year ended June 30, 2023

Nonattest Services



- Assisted in drafting the consolidated financial statements and related footnotes as of and for the year ended June 30, 2023
- Assisted management with drafting the auditee portion of the OMB data collection form
- Assisted management with implementation of GASB 96, Subscription-Based Information Technology Arrangements, required to be implemented for the year ended June 30, 2023

Auditor Report on the Consolidated Financial Statements

- Unmodified Opinion – The consolidated financial statements are presented fairly and in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).
- Emphasis of matter – Adoption of new accounting standards

Other Auditor Reports

GAGAS Report on Internal Control over Financial Reporting and on Compliance and Other Matters

- No financial reporting findings
- No compliance findings

Report on Compliance with Requirements that Could Have a Direct and Material Effect on the Major Federal Programs and on Internal Control Over Compliance in accordance with the Uniform Guidance for Federal Awards
(2 CFR Part 200)

- No control findings
- No compliance findings

Significant Risks

During the audit, we noted the following:

Significant Risks	Procedures
Valuation of patient accounts receivable	<ul style="list-style-type: none">- Tie-out of reserving schedules- Zero Balance Accounts (“ZBA”) analysis- Lookback analysis & subsequent collections analysis
Revenue recognition	<ul style="list-style-type: none">- Patient revenue analysis & cut-off analysis- Journal entry testing focusing on revenue reversals
Management override of controls	<ul style="list-style-type: none">- Journal entry testing using risk-based criteria- Inquiries with executive, finance, and operational personnel

Hospital Patient Accounts Receivable – trend analysis

(\$ in 000's)	2023	2022	2021	2020	2019
Net Patient Accounts Receivable	\$85,106	\$83,766	\$70,975	\$69,081	\$77,310
Subsequent Cash Receipts 2 months after 6/30	\$55,127	\$53,349	\$55,047	\$46,733	\$45,427
% Collected 2 months after 6/30	65%	64%	66%	68%	59%
Exposure after 2 months' collections	\$29,979	\$30,417	\$15,928	\$22,348	\$31,883
Collected 14 months after 6/30	n/a	\$89,091	\$83,550	\$75,674	\$83,906
% Collected 14 months after 6/30	n/a	106%	118%	110%	109%

Matters to Be Communicated to the Governing Body

Our responsibility with regard to the financial statement audit under U.S. auditing standards:

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with *accounting principles generally accepted in the United States of America*. Our audit of the financial statements does not relieve you or management of your responsibilities. The objectives of our audit are also to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Matters to Be Communicated to the Governing Body

Our responsibility with regard to the financial statement audit under U.S. auditing standards:

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“U.S. GAAS”), *Government Auditing Standards*, issued by the Comptroller General of the United States, as well the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts. As part of an audit conducted in accordance with these auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

Matters to Be Communicated to the Governing Body

Our responsibility with regard to the financial statement audit under U.S. auditing standards:

We are also responsible for communicating significant matters related to the financial statement audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

- Significant Unusual Transactions
- Significant Difficulties Encountered During the Audit
- Disagreements with Management
- Circumstances that affect the form and content of the auditor's report
- Other findings or issues arising from the audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process
- Corrected and uncorrected misstatements
- Management's consultation with other accountants



MOSS ADAMS COMMENTS

No significant unusual transactions or other required communication matters were identified during our audit of the entity's financial statements.

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

Significant Accounting Practices:

Our views about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures



MOSS ADAMS COMMENTS

The quality of the entity's accounting policies and underlying estimates are discussed throughout this presentation. There were no changes in the entity's approach to applying the critical accounting policies.

- Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by Salinas Valley Health are described in the notes to the consolidated financial statements. During the year, SVMH adopted GASB GASB 96, *Subscription-Based Information Technology Arrangements*. There were no other changes to significant accounting policies for the year ended June 30, 2023.
- We believe management has selected and applied significant accounting policies appropriately and consistent with those of the prior year.

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

Management Judgments & Accounting Estimates:

The Audit Committee should be informed about the process used by management in formulating particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.

MOSS ADAMS COMMENTS

- Management's judgments and accounting estimates are based on knowledge and experience about past and current events and assumptions about future events. We apply audit procedures to management's estimates to ascertain whether the estimates are reasonable under the circumstances and do not materially misstate the consolidated financial statements.
- Significant management estimates impacted the consolidated financial statements including the following: useful lives of capital assets and right-of-use assets, discount rates and lease terms related to SVH's operating lease right-of-use assets, lease liabilities, lease receivable, deferred inflows of resources – leases, subscription assets, and subscription liabilities.

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

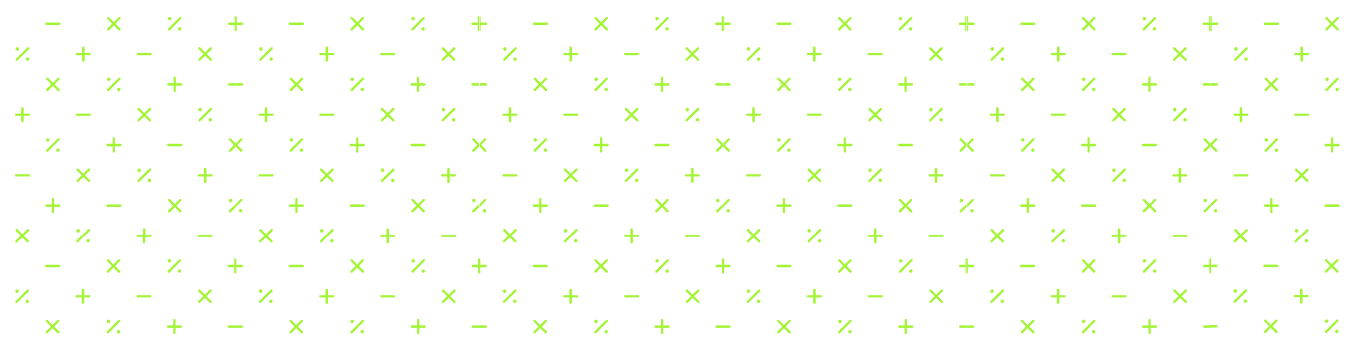
Management Judgments & Accounting Estimates:

The Audit Committee should be informed about the process used by management in formulating particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.



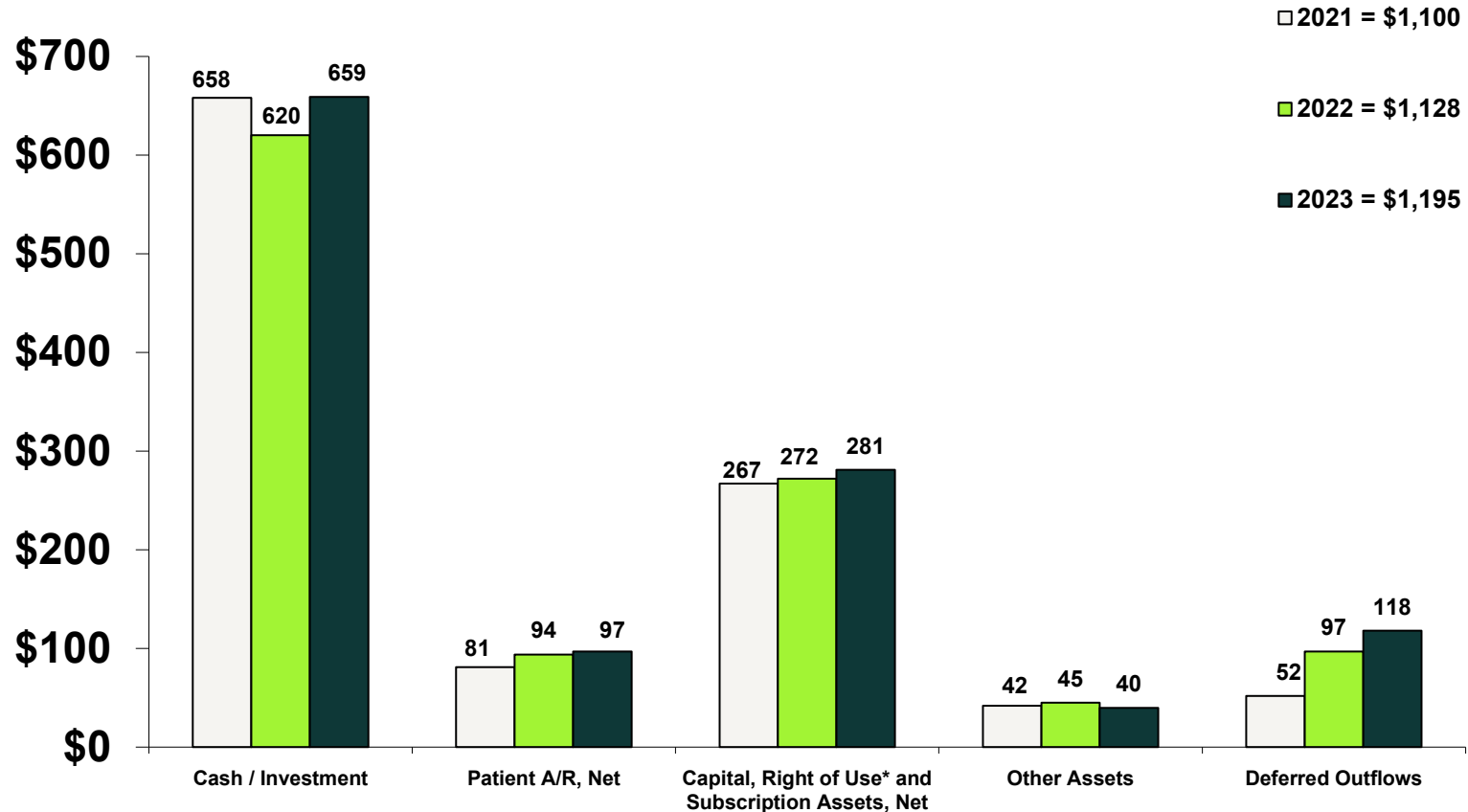
MOSS ADAMS COMMENTS

- The disclosures in the consolidated financial statements are clear and consistent. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We call your attention to the following notes: significant concentration of net patient accounts receivable, investments and fair value of investments, capital assets, employee benefit plans, post-retirement medical benefits, insurance plans, leases, and subscription-based information technology arrangements.



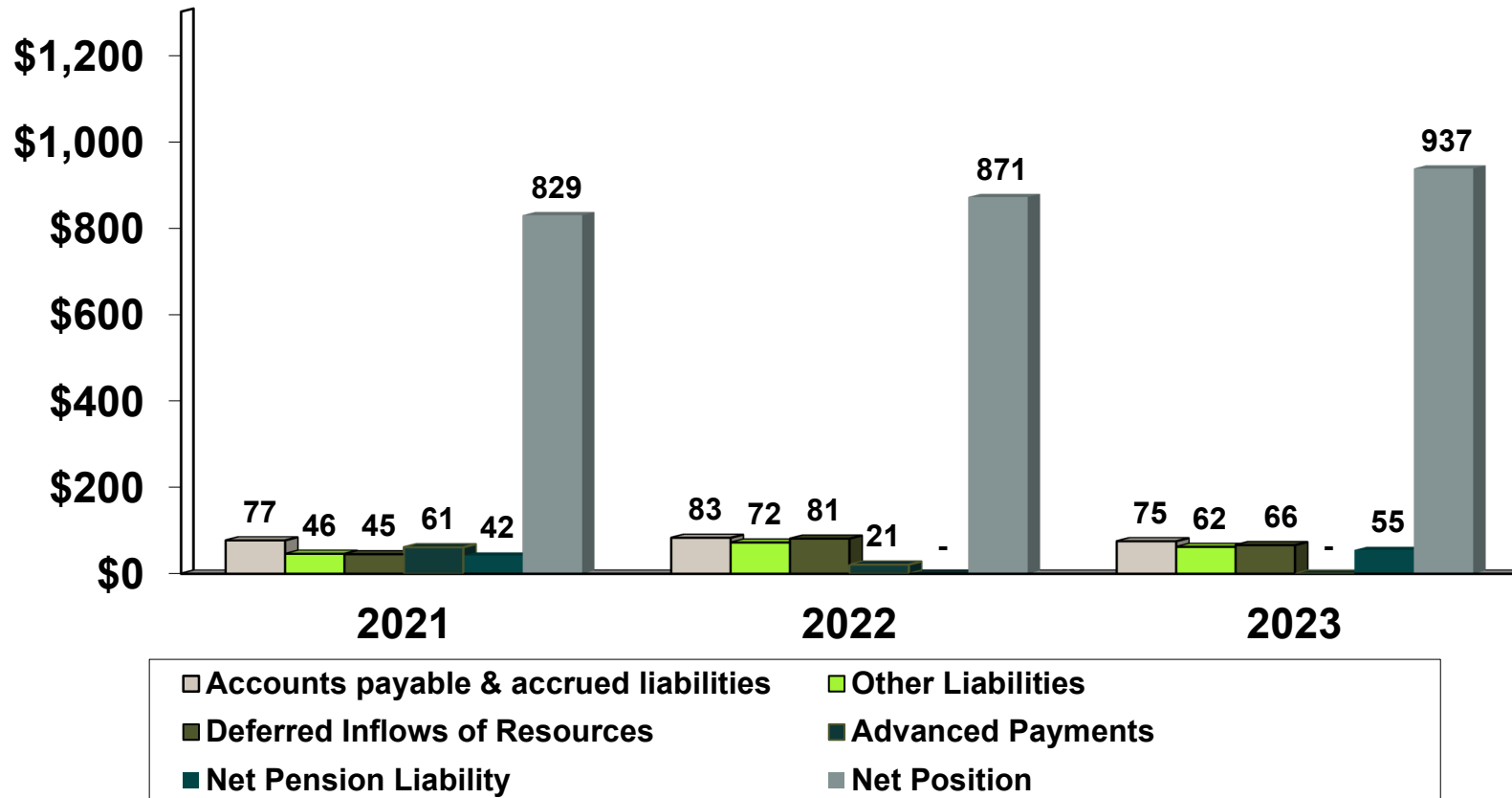
Consolidated Statements of Net Position

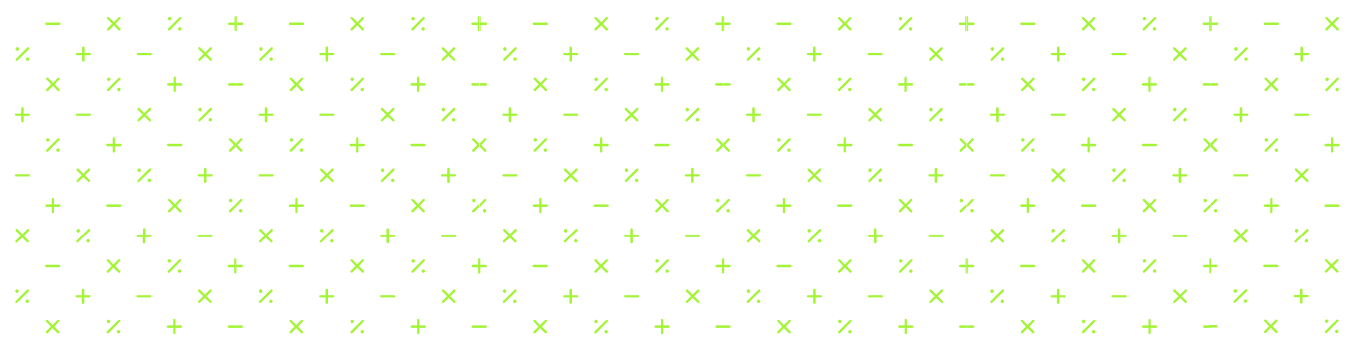
Asset and Deferred Outflows (in millions)



*represents GASB 87 operating lease right of use asset

Liabilities, Deferred Inflows, and Net Position (in millions)

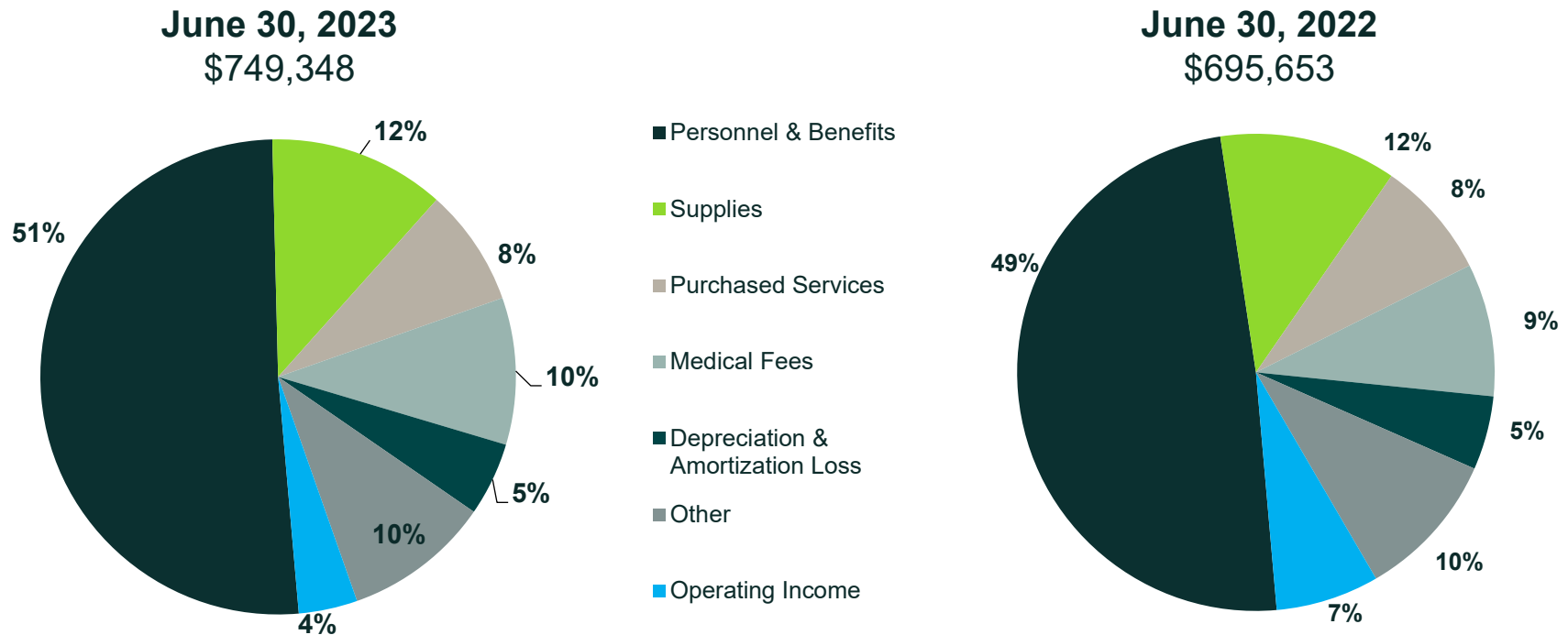




Consolidated Operations

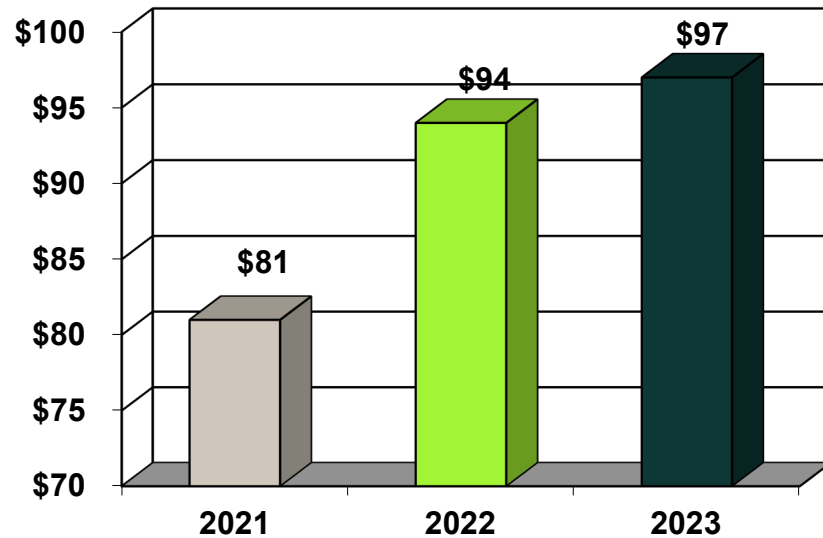
Income Statements Year-to-Year Comparison

Total Operating Revenues (in thousands) and Expense Categories as a Percentage of Total Operating Revenues

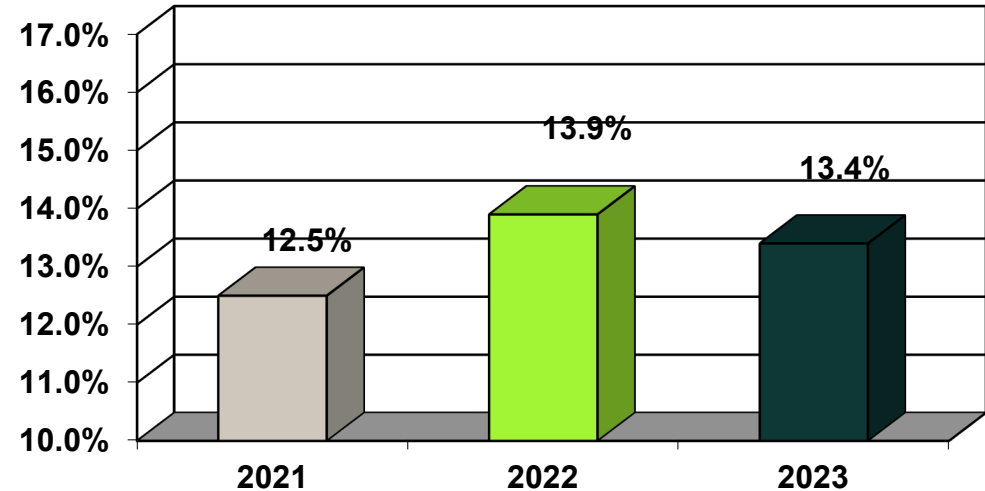


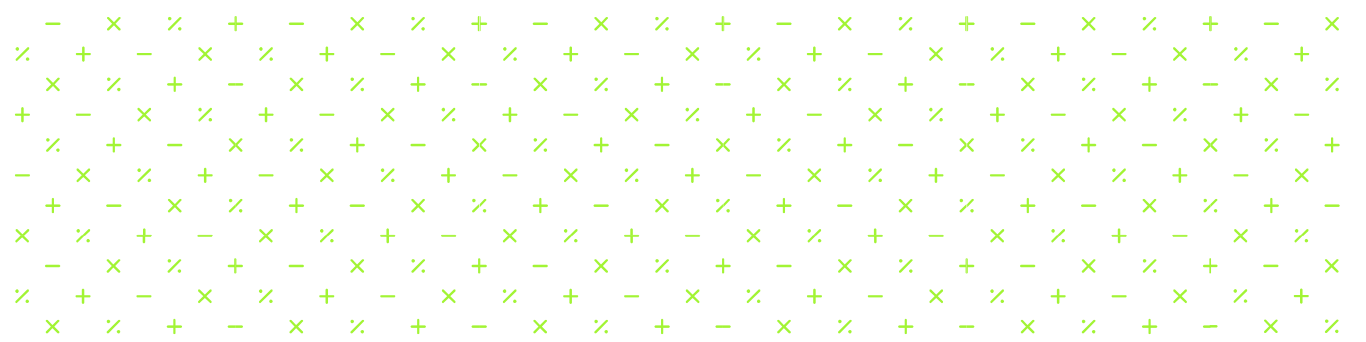
Net Patient Service Accounts Receivable

Dollars (in millions)



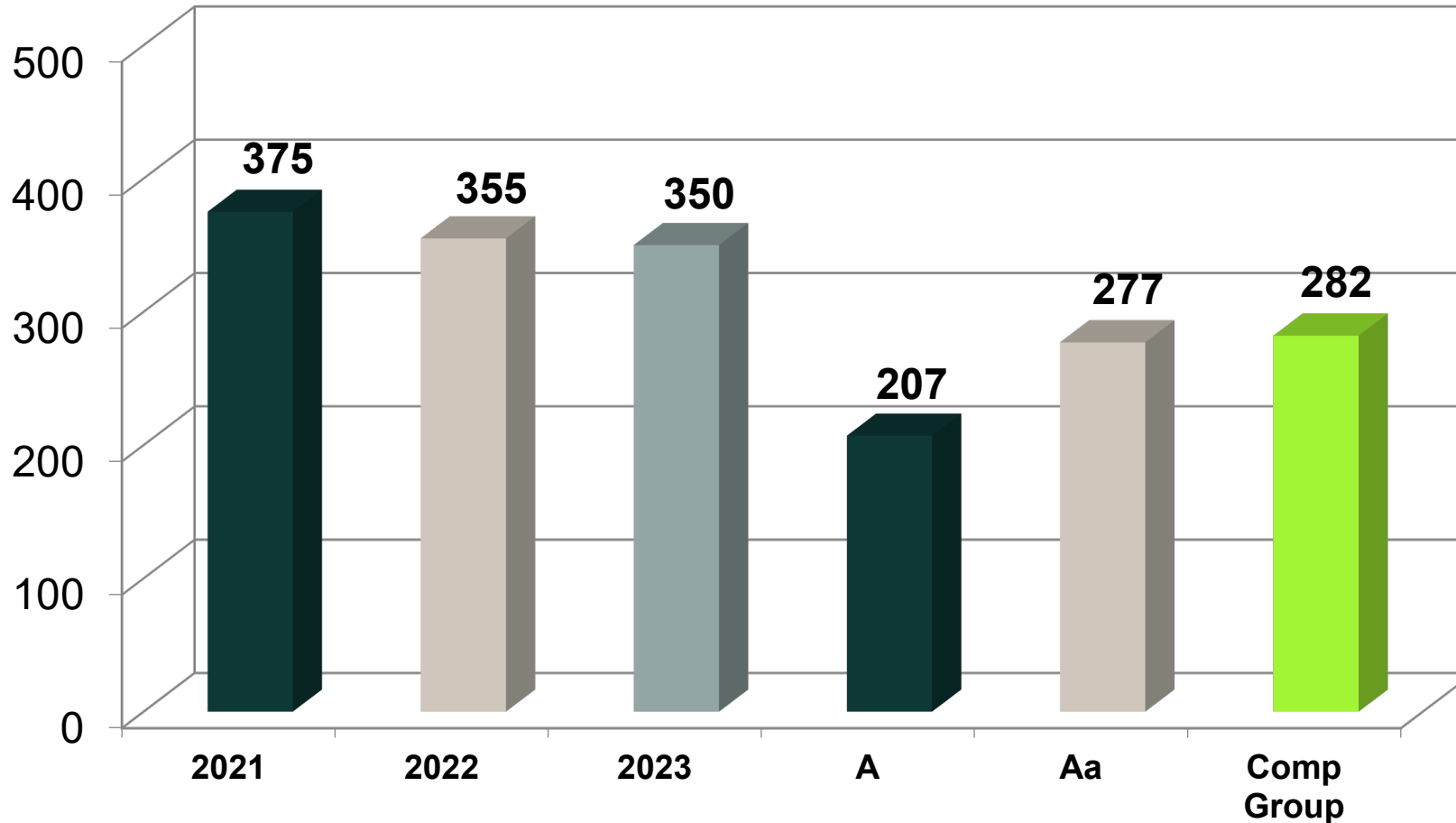
% Net Revenues



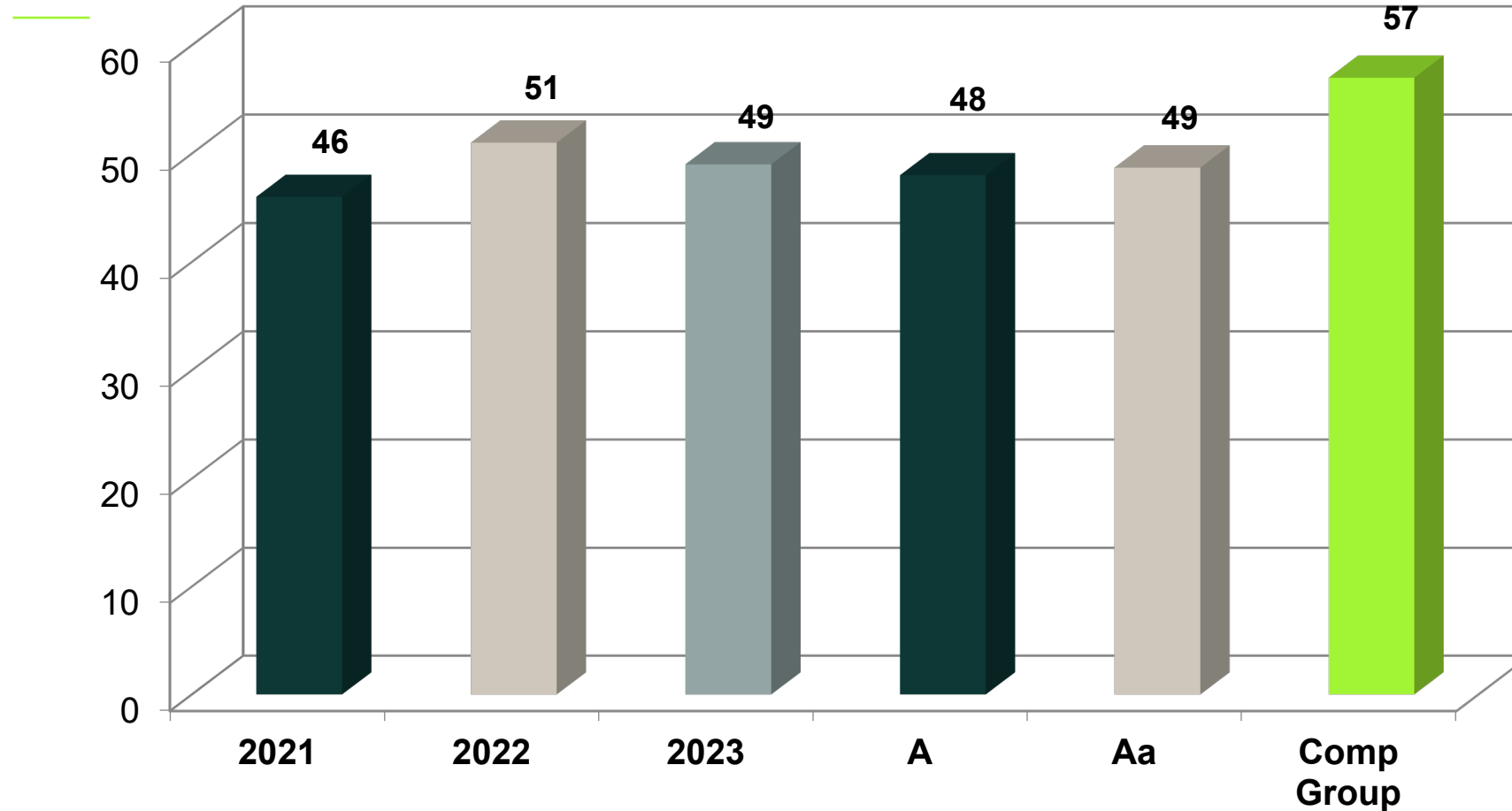


Other Information

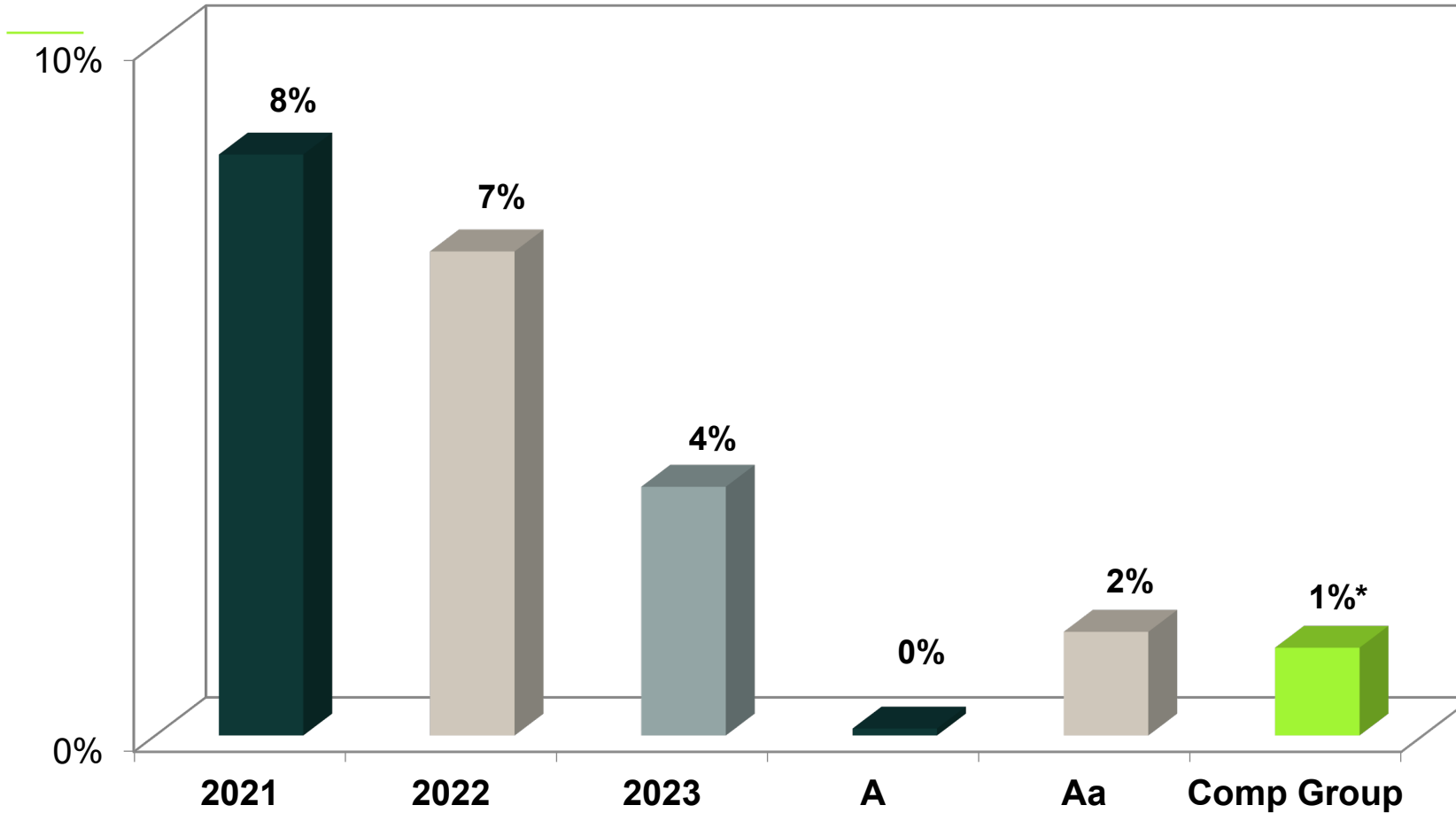
Days Unrestricted Cash and Investments



Days in Accounts Receivable



Operating Margin (Operating Income/Total Revenue)

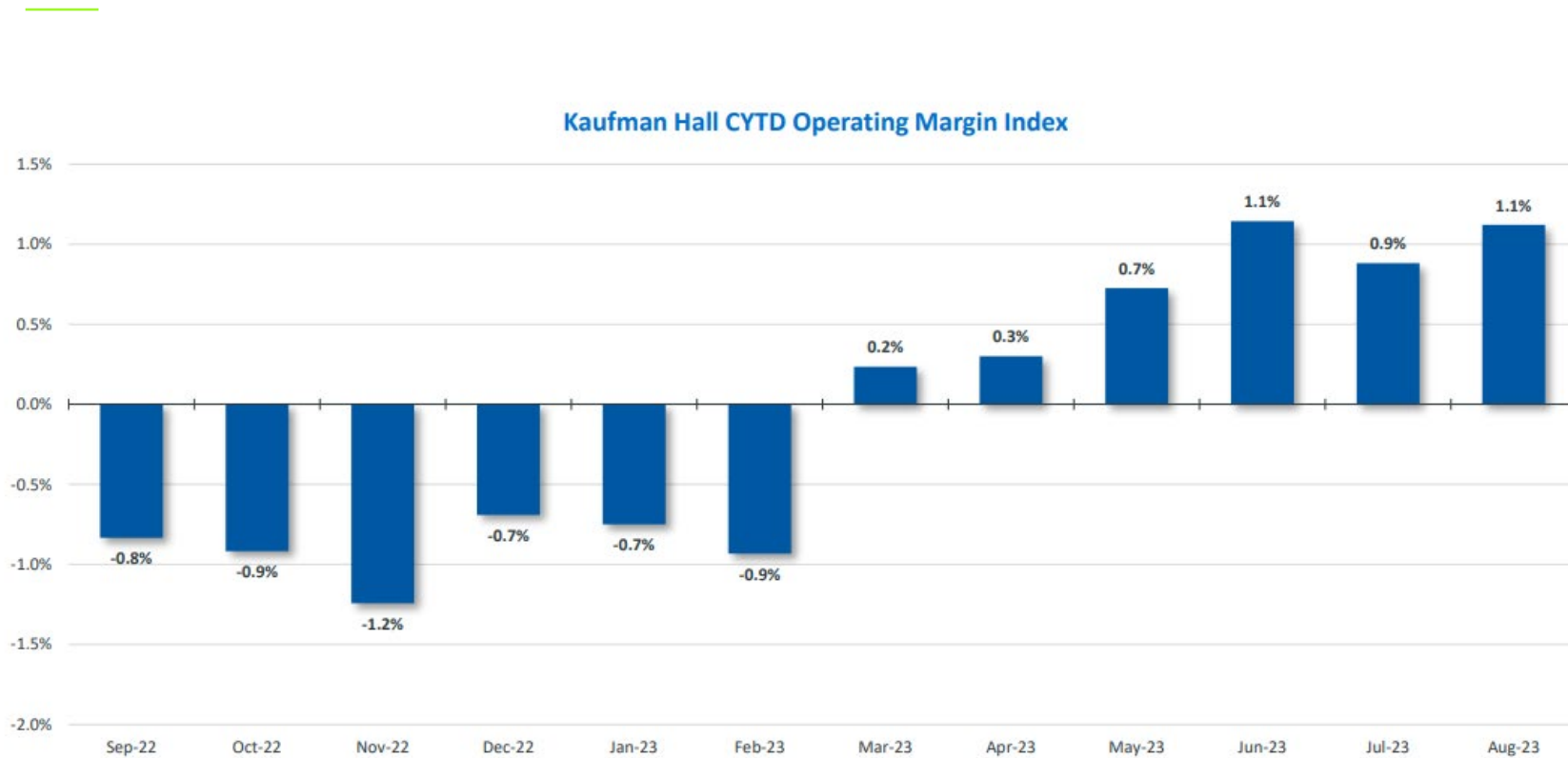


*Comp Group Operating Margin ranges from (5.6%) to 12.2% with 1 positive margin and 3 negative margins

Moody's Investors Services: *Fiscal Year 2022*
Not-for-Profit Health Care Medians September 2023



Operating Margin Index



Source: *National Hospital Flash Report*, September 2023, Kaufman Hall



GASB Accounting Updates

- GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62. Effective for Salinas Valley Health beginning July 1, 2023.
- GASB Statement No. 101, Compensated Absences. Effective for Salinas Valley Health beginning July 1, 2024.

Your Service Team



Kimberly Sokoloff, CPA

Lead Audit Partner

Kimberly.Sokoloff@mossadams.com

(925) 952-2506



Chris Pritchard, CPA
Relationship Partner

Chris.Pritchard@mossadams.com

(415) 677-8262



Katherine Djiau, CPA

Audit Senior Manager

Katherine.Djiau@mossadams.com

(415) 677-8294



Nini Pham, CPA
Audit Manager

Nini.Pham@mossadams.com

(415) 677-8347



**THANK
YOU**



DRAFT

*Reports of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information*

Salinas Valley Memorial Healthcare System

June 30, 2023 and 2022



Table of Contents

MANAGEMENT’S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT AUDITORS	13
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Net Position	17
Consolidated Statements of Revenues, Expenses, and Changes in Net Position.....	20
Consolidated Statements of Cash Flows	21
Employees’ Pension Plan – Statements of Fiduciary Net Position.....	23
Statements of Changes in Fiduciary Net Position	24
Notes to Consolidated Financial Statements.....	25
SUPPLEMENTARY INFORMATION	
Consolidating Statement of Net Position	62
Consolidating Statement of Revenues, Expenses, and Changes in Net Position.....	64
Supplementary Schedule of Community Benefit (Unaudited)	65
Schedule of Expenditures of Federal Awards.....	66
Notes to Schedule of Expenditures of Federal Awards	67
REQUIRED SUPPLEMENTARY INFORMATION	
Supplementary Pension and Post Employment Benefit Information	69
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	70
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	72
Schedule of Findings and Questioned Costs.....	75
Summary Schedule of Prior Audit Findings	76

DRAFT
Not to be reproduced or relied
upon for any purpose

Management's Discussion and Analysis

DRAFT

Salinas Valley Memorial Healthcare System Management's Discussion and Analysis As of and for the Years Ended June 30, 2023, 2022, and 2021

INTRODUCTION

This section of Salinas Valley Memorial Healthcare System's ("Salinas Valley Health" or "SVH") annual financial report provides an overview of SVH's financial activities as of and for the year ended June 30, 2023, with comparative financial information as of and for the years ended June 30, 2022 and 2021. Additionally, this section provides an overview of the financial activities of the Salinas Valley Memorial Healthcare District Employees Pension Plan (the "Plan" or "Fiduciary") as of and for the year ended June 30, 2023, with comparative financial information as of and for the years ended June 30, 2022 and 2021. During the year ended June 30, 2023, SVH adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 96, *Subscription-Based Information Technology Arrangements*, retroactive to July 1, 2021. The 2021 amounts in the tables below have not been adjusted for the impact of GASB No. 96. The discussion and analysis has been prepared by management and should be read in conjunction with SVH's audited consolidated financial statements and the Plan's audited financial statements, which follow this section.

MANAGEMENT'S DISCUSSION AND ANALYSIS – Salinas Valley Health

General Salinas Valley Health Description

The Salinas Valley Memorial Hospital, now known as the Salinas Valley Health ("SVH"), was formed in 1947 pursuant to California Health and Safety Code Section 32000 and follows Healthcare District Law. The authority and responsibility to govern SVH is vested in a five-member elected Board of Directors from zones within the Hospital District. Opened in 1953, SVH is dedicated as a memorial to those brave men and women who gave their lives in World War II to preserve our American heritage. We honor their memory by our commitment to our mission: "to provide quality healthcare to our patients and to improve the health and well-being of our community."

SVH is anchored by Salinas Valley Health Medical Center (the "Hospital"), an acute care facility licensed for 263 beds. As one of the area's largest employers, the Hospital has a staff of approximately 2,100 people and is recognized as a leader in providing nationally recognized quality care. Principal services include a comprehensive heart program providing advanced diagnostics and treatments such as those in its structural heart program, heart catheterization labs, and heart surgical suites; and orthopedic, perinatal, and oncology services. Collaboration is an important operating principle for SVH in such key areas as SVH's Level III Neonatal Intensive Care Unit and Perinatal Diagnostic Center, which are operated in a joint venture with Stanford Children's Health; the Madison Clinic for Pediatric Diabetes, a partnership with UCSF; Aspire Health Plan, Monterey County's only Medicare Advantage program; Taylor Family Farms Health and Wellness Center (Rural Health Clinic); and Blue Zones Project Monterey County, dedicated to building a community where people live longer and healthier lives. SVH includes Salinas Valley Health Clinics, a multi-location clinic expanding access to primary and specialty care. SVH includes 9 urgent care locations and a system-wide information network.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Overview of the Consolidated Financial Statements

The financial report consists of two parts – management's discussion and analysis (this section), and the consolidated financial statements together with the related notes, as mandated by certain pronouncements of the GASB. The consolidated financial statements present information about SVH's financial position and results of operations, as well as cash flows for the respective fiscal years, presented on a consolidated basis whereby the consolidated financial statements include the accounts of all affiliates owned 50% or more for which day-to-day operations are managed by SVH. The consolidated financial statements also include explanatory notes, which are an integral part of the consolidated financial statements.

Components of the Basic Consolidated Financial Statements

The consolidated statement of net position displays the assets, deferred outflows, liabilities, deferred inflows, and resulting net position of SVH as of the end of the fiscal year. Separate amounts of net position are reported for each of the classes of net position: (a) permanently restricted principal (expendable earnings only), (b) temporarily restricted net position (expendable by Board action for donor designation), (c) unrestricted net position, and (d) invested in capital assets, net of related debt. Net position classifications are based on the existence or absence of donor-imposed or other third-party restrictions.

Unrestricted net position generally results from providing or agreeing to provide healthcare services, receiving unrestricted contributions and grants, receiving income from investing in income-producing assets minus expenses incurred to provide healthcare services, providing other community benefits, and performing administrative functions. The limits on the use of unrestricted net position are broad, resulting from the California Government Code, which regulates the environment in which SVH operates, as well as limits resulting from contractual agreements with suppliers, creditors, and others in the ordinary course of business. Information about the nature and amounts of different types of restrictions are provided either by reporting the amounts in the consolidated financial statements or by including relevant details in the notes to the consolidated financial statements.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Financial Highlights

The following table illustrates comparable statistics (excluding newborns) for the year ended June 30, 2023, as compared to the years ended June 30, 2022 and 2021:

	Year Ended June 30,			Change	
	2023	2022	2021	2023/2022	2022/2021
Admissions	11,808	10,926	10,101	882	825
Average daily census	130	118	117	12	1
Average length of stay	4	4	4	-	-
Patient days:					
Medicare	23,421	21,162	20,289	2,259	873
Managed care	8,590	8,763	8,733	(173)	30
Medi-Cal and CCAH	13,892	11,895	12,391	1,997	(496)
Other	1,435	1,241	1,345	194	(104)
Total patient days	<u>47,338</u>	<u>43,061</u>	<u>42,758</u>	<u>4,277</u>	<u>303</u>
Outpatient visits:					
Hospital outpatients	67,746	66,695	70,835	1,051	(4,140)
Emergency room	65,873	56,626	47,630	9,247	8,996
Total outpatient visits	<u>133,619</u>	<u>123,321</u>	<u>118,465</u>	<u>10,298</u>	<u>4,856</u>

As shown above, patient days increased 9.9% during 2023, from the levels of the prior year. Outpatient visits increased 8.4% during 2023, from the levels of the prior year, with increases in both hospital outpatient visits and emergency room visits.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Abbreviated Consolidated Statements of Net Position

The following abbreviated consolidated statements of net position compare the balances as of June 30, 2023, to that of June 30, 2022 and 2021 (in thousands):

	As of June 30,			Change	
	2023	2022 (As restated)	2021	2023/2022	2022/2021
Current assets:					
Cash and cash equivalents	\$ 335,989	\$ 315,889	\$ 360,939	\$ 20,100	\$ (45,050)
Patient accounts receivable, net	97,434	94,115	80,932	3,319	13,183
Other	85,886	107,364	151,022	(21,478)	(43,658)
Total current assets	519,309	517,368	592,893	1,941	(75,525)
Board-designated funds	157,875	148,633	143,257	9,242	5,376
Capital assets, net	256,235	249,724	256,934	6,511	(7,210)
Other assets, net	143,852	115,625	55,096	28,227	60,529
Total assets	1,077,271	1,031,350	1,048,180	45,921	(16,830)
Deferred outflows	118,048	97,245	51,757	20,803	45,488
Total assets and deferred outflows	\$ 1,195,319	\$ 1,128,595	\$ 1,099,937	\$ 66,724	\$ 28,658
Current liabilities					
Noncurrent liabilities	\$ 101,993	\$ 141,390	\$ 156,812	\$ (39,397)	\$ (15,422)
Deferred inflows	89,839	34,881	69,641	54,958	(34,760)
Total liabilities and deferred inflows	66,000	81,468	44,553	(15,468)	36,915
Total liabilities and deferred inflows	257,832	257,739	271,006	93	(13,267)
Net position:					
Invested in capital assets, net	254,730	236,018	254,906	18,712	(18,888)
Reserved for minority interest	(4,705)	(4,003)	(3,914)	(702)	(89)
Restricted - expendable	5,602	5,900	5,917	(298)	(17)
Restricted - nonexpendable	1,205	1,131	1,130	74	1
Unrestricted	680,655	631,810	570,892	48,845	60,918
Total net position	937,487	870,856	828,931	66,631	41,925
Total liabilities, deferred inflows, and net position	\$ 1,195,319	\$ 1,128,595	\$ 1,099,937	\$ 66,724	\$ 28,658

Analysis – 2023 and 2022

Total current assets increased by \$1.9 million in 2023, compared to 2022, due primarily to an increase in cash and cash equivalents partially offset by a decrease in short-term investments within other current assets.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Board-designated funds increased by \$9.2 million in 2023 as compared to 2022 due to incoming transfers from the operating account. Capital assets, net, increased by \$6.5 million in 2023 as compared to 2022, due primarily to capital asset acquisitions in excess of depreciation expense incurred. Other assets increased by \$28.2 million, primarily due to an increase in long-term investments.

Current liabilities decreased by \$39.4 million in 2023, primarily due to recoupment in Medicare Advance Payments and release in deferred grants. Noncurrent liabilities increased by \$55.0 million in 2023, primarily due to an increase in the net pension liability.

SVH adopted GASB Statement No. 96, *Subscription-Based IT Arrangements* ("GASB No. 96"), as of July 1, 2022, applied retrospectively. SVH evaluated contracts for subscription-based information technology arrangements ("SBITAs"), and as a result, SVH recognized subscription assets of \$19.4 million and subscription liabilities of \$19.4 million on its consolidated statements of net position, that were formerly accounted for as operating expenses. The impact to beginning net position was not significant. See Note 15 to the consolidated financial statements for further discussion of impact of the adoption on SVH's consolidated financial statements.

Analysis – 2022 and 2021

Total current assets decreased by \$75.5 million in 2022, compared to 2021, due primarily to a decrease in cash and cash equivalents.

Board-designated funds increased by \$5.4 million in 2023, compared to 2022 due to incoming transfers from the operating account. Capital assets, net, decreased in 2022 as compared to 2021 due to the sale of the Salinas Valley Assisted Living Center. Other assets increased by \$60.5 million due to transfer of investments to long-term and adoption of GASB No. 96.

Current liabilities decreased by \$15.4 million in 2023, primarily due to recoupment in Medicare Advance Payments. Long-term liabilities decreased by \$34.8 million in 2023, primarily due to a decrease in the net pension liability.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Abbreviated Consolidated Statements of Revenues, Expenses, and Changes in Net Position

The following abbreviated consolidated statements of revenues, expenses, and changes in net position and detail summary of net patient service revenues compare the activity for the year ended June 30, 2023, to that of the years ended June 30, 2022 and 2021 (in thousands):

	Year Ended June 30,			Change	
	2023	2022 (As restated)	2021	2023/2022	2022/2021
Net patient service revenues	\$ 726,870	\$ 676,259	\$ 648,689	\$ 50,611	\$ 27,570
Other revenues	22,478	19,394	17,579	3,084	1,815
Total operating revenues	749,348	695,653	666,268	53,695	29,385
Total operating expenses	(721,916)	(649,641)	(611,748)	(72,275)	(37,893)
Operating income	27,432	46,012	54,520	(18,580)	(8,508)
Total nonoperating income (loss), net	39,199	(4,087)	16,059	43,286	(20,146)
Increase in net position	<u>\$ 66,631</u>	<u>\$ 41,925</u>	<u>\$ 70,579</u>	<u>\$ 24,706</u>	<u>(28,654)</u>

Analysis – 2023 and 2022

Operating revenues increased by 7.7% in 2023 as compared to 2022, driven primarily by net patient service revenues. Net patient service revenues in 2023 increased by \$50.6 million to \$726.8 million from \$676.2 million in 2022. Management attributes the change in net patient service revenues to a return to normalized Hospital operations during 2023 including growth in inpatient and outpatient volumes.

Operating expenses increased in 2023 by approximately \$72.3 million or 11.1% over 2022 primarily from increases in salaries, wages, and benefits at the Hospital. Operating income in 2023 decreased by \$18.6 million to \$27.4 million from \$46.0 million for 2022.

Nonoperating income, net, for 2023 was \$39.2 million as compared to a nonoperating loss, net of \$4.1 million in 2022. An increase in investment income drove the change in nonoperating income for 2023 compared to 2022. Increase in net position as a percentage of total operating revenues was 8.9% for 2023, compared to 6.0% for 2022.

Analysis – 2022 and 2021

Operating revenues increased by 4.4% in 2022 as compared to 2021, driven primarily by net patient service revenues. Net patient service revenues in 2022 increased by \$27.5 million to \$676.2 million from \$648.7 million in 2021. Management attributes the change in net patient service revenues to an increase in patient acuity related to the novel coronavirus ("COVID-19"), which drove the increase in multiple service lines of outpatient services in 2022.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Operating expenses increased in 2022 by approximately \$37.9 million or 6.2% over 2021, primarily due to increases in salaries, wages, and benefits at the Hospital. Operating income for 2022 decreased by \$8.5 million to \$46.0 million from \$54.5 million for 2021.

Nonoperating loss, net, for 2022 was \$4.1 million as compared to nonoperating income, net, of \$16.1 million in 2021. A decrease in investment income drove the change in nonoperating income for 2022 compared to 2021. Increase in net position as a percentage of total operating revenues was 6.0% for 2022, compared to 10.6% for 2021.

Net Patient Service Revenues

Net patient service revenues by funding source for 2023, 2022, and 2021 (in thousands) were as follows:

	Year Ended June 30,			Change	
	2023	2022	2021	2023/2022	2022/2021
	(As restated)				
Payor:					
Hospital operations:					
Medicare	\$ 174,595	\$ 135,237	\$ 120,447	\$ 39,358	\$ 14,790
Managed care	322,294	320,067	306,889	2,227	13,178
Medi-Cal and CCAH	104,474	79,771	89,914	24,703	(10,143)
Other	23,916	43,244	46,126	(19,328)	(2,882)
Consolidated subsidiaries	101,591	97,940	85,313	3,651	12,627
Total net patient service revenues	<u>\$ 726,870</u>	<u>\$ 676,259</u>	<u>\$ 648,689</u>	<u>\$ 50,611</u>	<u>\$ 27,570</u>

Net patient service revenues increased by 7.5% in 2023, compared to 2022. Net patient service revenues increased by 4.3% in 2022, as compared to 2021.

Liquidity and Other Key Ratios

Following is a table showing liquidity and other key ratios for the fiscal year ended June 30, 2023, as compared to June 30, 2022 and 2021:

	Year Ended June 30,		
	2023	2022	2021
Liquidity ratios:			
Current ratio	5.1	3.7	3.8
Days of revenue in patient accounts receivable	48.9	50.8	45.7
Margins:			
Operating income to total operating revenues	3.7%	6.6%	8.4%
Increase in net position (net income) to total operating revenues	8.9%	6.0%	10.5%
Return on total net position	7.1%	4.8%	9.3%

SVH's current ratio (ratio of current assets to current liabilities) increased substantially year over year from 2022 to 2023, while it remained consistent year over year in 2021 and 2022.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Other Operational Information

Significant operational issues impacting SVH in the near and long term include the following:

Physician Recruitment

Anticipated physician retirement and the growth of the local community have caused SVH to continue its emphasis on physician recruitment in 2023, which will be a continuing issue for SVH in the next several years. In order to keep the facility in the forefront of medical excellence, SVH has adopted a recruitment program to attract physicians in various specialties to the area.

As financial pressures continue to impact SVH and all other healthcare providers in California and the rest of the country, we look for additional investment opportunities in healthcare operations and facilities to supplement and enhance our programs. Through this strategy we are continuing to augment our core activity with partnerships and other forms of alliances with physicians (within the constraints of the law), to continue to have the necessary resources to provide the local community with state-of-the-art healthcare facilities.

Management Focus

It is the mission of Salinas Valley Health to provide quality healthcare to our patients and to improve the health and well-being of our community. Our vision is to be a center of excellence where an inspired team delivers compassionate and culturally sensitive care, outstanding quality, and an exceptional patient experience.

To carry out this mission and vision, we must have the best professionals, personnel, state-of-the-art equipment, facilities, services, supplies, and infrastructure. We focus on the following:

- Investing only in resources and services that enhance or supplement our core mission.
- Managing our resources by utilizing measurable objectives that tie to our core mission and holding management accountable for continuing performance improvements.

Federal and State Net Revenue Estimates

Entities doing business with governmental payors, including Medicare and Medicaid (Medi-Cal in California), are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively, "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Moreover, different Government Agents frequently interpret government regulations and other requirements differently. For example, Government Agents might disagree on a patient's principal medical diagnosis, the appropriate code for a clinical procedure, or many other matters. Such disagreements might have a significant effect on the ultimate payout due from the government to fully recoup sums already paid. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, SVH estimates the amount of revenue that will ultimately be received under the Medicare and Medi-Cal programs.

California Intergovernmental Transfers Received

Section 14164 of the California Welfare & Institutions Code provides for transfers between participating hospitals and the State Department of Healthcare Services to be used as a portion of the nonfederal share of providing services to Medi-Cal recipients. SVH received \$9.7 million, \$7.9 million, and \$14.9 million net funding under this program in the years ended June 30, 2023, 2022, and 2021, respectively.

Charity Care and Community Funding

SVH delivered charity care, community benefits, and unreimbursed patient care totaling \$160 million, \$132 million, and \$126 million in the years ended June 30, 2023, 2022, and 2021, respectively. SVH has made additional investments in the community with the goal to develop collaborative community partnerships that create a lasting, healthy impact by changing the environment in which people live, work, learn, and play.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by SVH, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events, or developments that SVH expects or anticipates will or may occur in the future, contain forward-looking information.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS – FIDUCIARY

Overview

The Salinas Valley Memorial Healthcare District Employees Pension Plan (the "Plan") was established in November 1966 by the Salinas Valley Memorial Healthcare District (now known as the Salinas Valley Health or SVH) and has been amended from time to time since that date, as further described below. The Plan provides retirement, disability, and death benefits to permanent employees of SVH with union representation based on the employee's years of service, age, and annual compensation during covered employment.

General Plan Description

The Plan was amended effective January 1, 2004, to provide that the benefit formula be equal to 2.45% of the participant's earnings in a plan year. The benefit formula was previously 2.25% of the participant's earnings in a plan year (for plan years 2000 through 2003).

Participation in the Plan was frozen effective March 31, 2011, for nonunion employees. These employees are entitled to benefits earned before that date but do not accrue further benefits under the Plan.

The Plan was amended effective January 1, 2013, to comply with the applicable provisions of the California Public Employees' Pension Reform Act of 2013 ("PEPRA"). These provisions include limitations on pensionable compensation and retirement benefits and contribution provisions, including the establishment of participant contributions, for new participants who are hired on or after January 1, 2013, and meet the eligibility and vesting requirements of the Plan.

The Plan was amended and restated effective January 1, 2016, to update the Plan for legislative changes according to PEPRA and to remove the three-year service requirement to participate in the Plan for eligible employees.

The Plan's policies allow investments consisting of fixed income and equity marketable securities, and money market funds. The Plan's investments are held in a portfolio of registered investment companies ("mutual funds"). Benefit payments to members and beneficiaries continue to increase each year due to the increased number of retirees and beneficiaries receiving benefits.

Plan documents contain a more detailed description of the Plan's provisions and should be referred to for a more complete understanding of the terms of the Plan. Copies of the appropriate documents are available through the administrative offices of SVH.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Overview of the Basic Fiduciary Financial Statements - Salinas Valley Memorial Healthcare District Employees Pension Plan

The basic fiduciary financial statements present information about the Plan's fiduciary net position and changes in its fiduciary net position. The basic fiduciary financial statements also include notes to explain some of the information in the fiduciary financial statements and to provide more details. The notes are followed by a section of required supplementary information that displays additional detail information not in the basic fiduciary financial statements, but which is required by the pronouncements of the GASB and relate to funding progress and required contributions. The statement of fiduciary net position displays the assets (at fair value), liabilities, and resulting net position of the Plan as of the end of the fiscal year. The statement of changes in fiduciary net position reflects the employer contributions and investment return, net of investment expenses, less benefits paid.

Financial Analysis of the Plan

Total contributions have exceeded the actuarially determined contribution amounts since 2015, due to decisions made by the SVH's Board of Directors to fund the Plan at amounts above actuarially determined contributions.

Abbreviated Fiduciary Financial Statements - Salinas Valley Memorial Healthcare District Employees Pension Plan

The following are abbreviated statements of fiduciary net position as of June 30, 2023, 2022, and 2021 (in thousands):

	As of June 30,			Change	
	2023	2022	2021	2023/2022	2022/2021
Cash and investments	\$ 403,720	\$ 442,375	\$ 386,006	\$ (38,655)	\$ 56,369
Net position held in trust for pension benefits	\$ 403,720	\$ 442,375	\$ 386,006	\$ (38,655)	\$ 56,369

The following are abbreviated statements of changes in fiduciary net position as of June 30, 2023, 2022, and 2021 (in thousands):

	Year Ended June 30,			Change	
	2023	2022	2021	2023/2022	2022/2021
Investment (loss) income, net	\$ (83,746)	\$ 47,033	\$ 43,531	\$ (130,779)	\$ 3,502
Employer contributions	61,579	23,127	23,766	38,452	(639)
Member contributions	2,578	2,673	1,976	(95)	697
Benefit payments to members and beneficiaries	(18,961)	(16,352)	(14,267)	(2,609)	(2,085)
Administrative expenses	(105)	(112)	(116)	7	4
Net change in fiduciary net position	\$ (38,655)	\$ 56,369	\$ 54,890	\$ (95,024)	\$ 1,479

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2023, 2022, and 2021

Analysis – 2023 and 2022

During 2023, the net position held in trust for pension benefits decreased by approximately 8.7%, compared to 2022. Employer contributions were \$61.6 million in 2023 compared to \$23.1 million in 2022. Benefit payments were \$19.0 million in 2023 compared to \$16.4 million in 2022. Net investment loss was \$83.8 million in 2023 compared to net investment income of \$47.0 million in 2022.

Analysis – 2022 and 2021

During 2022, the net position held in trust for pension benefits increased by approximately 14.6%, compared to 2021. Employer contributions were \$23.1 million in 2022 compared to \$23.8 million in 2021. Benefit payments were \$16.4 million in 2022 compared to \$14.3 million in 2021. Net investment income was \$47.0 million in 2022 compared to \$43.6 million in 2021.

Report of Independent Auditors

The Board of Directors
Salinas Valley Memorial Healthcare System

Report on the Audit of the Financial Statements

Opinions

We have audited the consolidated financial statements of the business-type activities and the aggregate remaining fund information of Salinas Valley Memorial Healthcare System (the "System") as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the System's consolidated 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 respective financial position of the business-type activities and the aggregate remaining fund information of Salinas Valley Memorial Healthcare System as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); the California Code of Regulations, Title 2, Section 1131.2, State Controller's Minimum Audit Requirements for California Special Systems; and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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 consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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 – New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of July 1, 2022. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, supplemental pension and post-retirement benefit information be presented to supplement the consolidated financial statements. Such information is the responsibility of management and, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements; and other knowledge we obtained during our audit of the basic consolidated 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 consolidated financial statements that collectively comprise the System's consolidated financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The accompanying supplemental schedule of community benefit has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2023, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

San Francisco, California

October 20, 2023

DRAFT
Not to be reproduced or relied
upon for any purpose

Consolidated Financial Statements

DRAFT

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2023 and 2022
(in Thousands)

	2023	2022 (As restated)
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 335,989	\$ 315,889
Patient accounts receivable, net of estimated uncollectibles of \$27,288 and \$29,007 at June 30, 2023 and 2022, respectively	97,434	94,115
Short-term investments	62,285	81,147
Supplies inventory	8,171	8,116
Lease receivable, current portion	1,267	705
Other current assets	14,163	17,396
Total current assets	519,309	517,368
BOARD-DESIGNATED FUNDS	157,875	148,633
CAPITAL ASSETS		
Nondepreciable	60,067	37,650
Depreciable, net	196,168	212,074
Total capital assets, net	256,235	249,724
OTHER ASSETS		
Right-of-use assets, net of amortization	13,922	7,291
Subscription assets, net of amortization	10,755	15,253
Lease receivable, net of current portion	1,169	1,752
Long-term investments	102,498	74,674
Investments in affiliates	14,067	13,266
Net pension asset	-	1,890
Other long-term assets	1,441	1,499
Total other assets	143,852	115,625
Total assets	1,077,271	1,031,350
DEFERRED OUTFLOWS - ACTUARIAL	116,911	95,857
DEFERRED OUTFLOWS - GOODWILL	1,137	1,388
Total deferred outflows	118,048	97,245
Total assets and deferred outflows	\$ 1,195,319	\$ 1,128,595

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2023 and 2022
(in Thousands)

	2023	2022 (As restated)
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 335,989	\$ 315,889
Patient accounts receivable, net of estimated uncollectibles of \$27,288 and \$29,007 at June 30, 2023 and 2022, respectively	97,434	94,115
Short-term investments	62,285	81,147
Supplies inventory	8,171	8,116
Lease receivable, current portion	1,267	705
Other current assets	14,163	17,396
Total current assets	<u>519,309</u>	<u>517,368</u>
BOARD-DESIGNATED FUNDS	<u>157,875</u>	<u>148,633</u>
CAPITAL ASSETS		
Nondepreciable	60,067	37,650
Depreciable, net	196,168	212,074
Total capital assets, net	<u>256,235</u>	<u>249,724</u>
OTHER ASSETS		
Right-of-use assets, net of amortization	13,922	7,291
Subscription assets, net of amortization	10,755	15,253
Lease receivable, net of current portion	1,169	1,752
Long-term investments	102,498	74,674
Investments in affiliates	14,067	13,266
Net pension asset	-	1,890
Other long-term assets	1,441	1,499
Total other assets	<u>143,852</u>	<u>115,625</u>
Total assets	<u>1,077,271</u>	<u>1,031,350</u>
DEFERRED OUTFLOWS - ACTUARIAL	116,911	95,857
DEFERRED OUTFLOWS - GOODWILL	1,137	1,388
Total deferred outflows	<u>118,048</u>	<u>97,245</u>
Total assets and deferred outflows	<u>\$ 1,195,319</u>	<u>\$ 1,128,595</u>

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position (Continued)
June 30, 2023 and 2022
(in Thousands)

	2023	2022 (As restated)
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Notes payable, current portion	\$ 101	\$ 101
Accounts payable	11,788	18,117
Accrued expenses	63,545	64,390
Deferred grants	-	12,237
Advance payments - Medicare	-	21,045
Estimated third-party payor settlements	5,404	5,166
Lease liabilities, current portion	3,650	2,674
Subscription liabilities, current portion	4,631	5,319
Self-insurance liabilities, current portion	12,874	12,341
Total current liabilities	101,993	141,390
NET PENSION LIABILITY	55,011	-
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	4,001	5,007
NOTES PAYABLE, net of current portion	654	754
LEASE LIABILITIES, net of current portion	11,431	4,946
SUBSCRIPTION LIABILITIES, net of current portion	5,715	10,115
SELF-INSURANCE LIABILITIES, net of current portion	13,027	14,059
Total liabilities	191,832	176,271
DEFERRED INFLOWS - ACTUARIAL	63,781	79,111
DEFERRED INFLOWS - LEASES	2,219	2,357
Total deferred inflows	66,000	81,468
Total liabilities and deferred inflows	257,832	257,739
NET POSITION		
Invested in capital assets, net of related debt	254,730	236,018
Reserved for minority interest	(4,705)	(4,003)
Restricted - expendable	5,602	5,900
Restricted - nonexpendable	1,205	1,131
Unrestricted	680,655	631,810
Total net position	937,487	870,856
Total liabilities, deferred inflows, and net position	\$ 1,195,319	\$ 1,128,595

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022
(in Thousands)

	2023	2022 (As restated)
OPERATING REVENUES		
Net patient service revenues	\$ 726,870	\$ 676,259
Other revenues	22,478	19,394
Total operating revenues	749,348	695,653
OPERATING EXPENSES		
Salaries and wages	233,119	213,593
Compensated absences	37,885	35,457
Employee benefits	112,372	93,379
Supplies	90,793	86,507
Purchased services	60,878	50,507
Medical fees	74,168	64,588
Other fees	49,074	43,492
Depreciation and amortization	35,844	34,481
Other expenses	27,783	27,637
Total operating expenses	721,916	649,641
Operating income	27,432	46,012
NONOPERATING REVENUES AND EXPENSES		
Forgiveness of loan payable	-	1,079
Grants and contributions	20,467	3,046
Property tax revenue	5,721	4,987
Investment income (loss), net	19,282	(13,285)
Provision for credit losses	(5,914)	(4,414)
(Loss) gain on disposal of capital assets	(1,042)	1,864
Income from investments in affiliates	2,171	2,948
Other	(2,023)	1
Nonoperating income (loss), net	38,662	(3,774)
INCOME BEFORE MINORITY INTEREST	66,094	42,238
MINORITY INTEREST IN INCOME (LOSS) OF CONSOLIDATED AFFILIATES	537	(313)
INCREASE IN NET POSITION	66,631	41,925
NET POSITION, beginning of year	870,856	828,931
NET POSITION, end of year	\$ 937,487	\$ 870,856

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(in Thousands)

	2023	2022 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$ 676,191	\$ 580,863
Cash paid to employees for services	(384,270)	(342,429)
Cash paid to suppliers for goods and services	(270,582)	(272,359)
Other receipts from operations	22,478	19,394
Net cash provided by (used in) operating activities	43,817	(14,531)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from property taxes levied by the County	5,721	4,987
Grants and donations received	20,467	3,046
Net cash provided by noncapital financing activities	26,188	8,033
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(35,346)	(19,631)
Proceeds from sale of capital assets	352	1,973
Proceeds from lease receivable	21	832
Payments on lease liabilities	(2,572)	(3,051)
Payments on subscription liabilities	(5,906)	(4,924)
Purchase of subscription assets	(360)	(474)
Principal payments on notes payable	(100)	(94)
Net cash used in capital and related financing activities	(43,911)	(25,369)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(99,886)	(110,174)
Proceeds from sales of investments	110,206	95,156
Changes in board designated funds	(9,242)	(5,376)
Other nonoperating income receipts	(9,110)	2,193
Distributions from minority interest in affiliates	2,038	5,018
Net cash used in investing activities	(5,994)	(13,183)
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,100	(45,050)
CASH AND CASH EQUIVALENTS, beginning of year	315,889	360,939
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 335,989</u>	<u>\$ 315,889</u>

See accompanying notes.

Salinas Valley Memorial Healthcare System
Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022
(in Thousands)

	2023	2022
		(As restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 27,432	\$ 46,012
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	35,844	34,481
Provision for doubtful accounts	47,598	45,609
Loss (gain) on disposal of capital assets	1,042	(1,864)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(50,917)	(58,792)
Supplies and other assets	3,236	(7,861)
Net pension asset	1,890	(1,890)
Net pension liability	55,011	(42,238)
Deferred grants	(12,237)	12,237
Deferred outflows	(20,803)	(45,488)
Deferred inflows	(15,468)	36,915
Accounts payable and accrued expenses	(7,174)	5,738
Advance payments - Medicare	(21,045)	(39,887)
Self-insurance liabilities	(1,505)	(226)
Estimated third-party payor settlements	238	2,351
Right-of-use assets/lease liabilities	(143)	-
Subscription liabilities/assets	818	372
	<u>\$ 43,817</u>	<u>\$ (14,531)</u>
Net cash provided by (used in) operating activities		
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Noncash acquisition (disposition) of right of use assets	<u>\$ 10,176</u>	<u>\$ -</u>

See accompanying notes.

Salinas Valley Memorial Healthcare System
Employees' Pension Plan – Statements of Fiduciary Net Position
June 30, 2023 and 2022
(in Thousands)

	2023	2022
ASSETS		
Investments, at fair value:		
Mutual funds	\$ 403,720	\$ 442,375
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	\$ 403,720	\$ 442,375

DRAFT

See accompanying notes.

Salinas Valley Memorial Healthcare System
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2023 and 2022
(in Thousands)

	2023	2022
ADDITIONS		
Investment income:		
Net (depreciation) appreciation in fair value of investments	\$ (93,981)	\$ 25,858
Dividends	10,235	21,175
Net investment (loss) income	<u>(83,746)</u>	<u>47,033</u>
Contributions:		
Employer	61,579	23,127
Members	<u>2,578</u>	<u>2,673</u>
Total contributions	<u>64,157</u>	<u>25,800</u>
Total (reductions) additions	<u>(19,589)</u>	<u>72,833</u>
DEDUCTIONS		
Benefit payments	18,961	16,352
Administrative expenses	<u>105</u>	<u>112</u>
Total deductions	<u>19,066</u>	<u>16,464</u>
NET CHANGE IN NET POSITION	(38,655)	56,369
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	<u>442,375</u>	<u>386,006</u>
End of the year	<u><u>\$ 403,720</u></u>	<u><u>\$ 442,375</u></u>

See accompanying notes.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

(in Thousands)

Note 1 – Organization

The Salinas Valley Memorial Healthcare System (“Salinas Valley Health” or “SVH”) is a special district created in 1947, administered by a Board of Directors elected by the registered voters of the Hospital District (the “District”). SVH is a political subdivision of the State of California and operates the Salinas Valley Memorial Hospital (“Salinas Valley Health Medical Center” or “SVHMC” or the “Hospital”) and Subsidiaries.

The consolidated SVH includes an 85% interest in a partnership, Central Coast Medical Service Organization (“CCMSO”), an outpatient medical clinic organization; 100% of Salinas Valley Memorial Hospital Foundation (the “Foundation”), which is authorized to solicit contributions on the Hospital’s behalf; 100% of Salinas Valley Health Clinics (“SVHC”), a multi-specialty physician practice; and 50% of a joint venture with Lucille Packard Children’s Hospital to operate the Neonatal Intensive Care Unit in the Hospital (“SVMH-LPCH NICU JV”).

Fiduciary plan description – The Plan is a single-employer noncontributory employee retirement system established by SVH. SVH is a political subdivision that was organized under the provisions of the Health and Safety Code of the State of California. Permanent employees of SVH with union representation are eligible to participate in the Plan upon the later of their employment commencement date or reaching the age of 21.

The Plan provides retirement, disability, and death benefits based on the employee’s years of service, age, and annual compensation during covered employment. Plan provisions and all other requirements are established by SVH’s five-member Board of Directors (the “Board”), which has been elected by the registered voters of the District.

Effective March 31, 2011, participation of nonunion employees in the Plan was frozen. Nonunion employees are entitled to benefits earned before March 31, 2011, but do not accrue further benefits under the Plan.

Effective January 1, 2013, the Plan was amended to adopt the applicable provisions of the California Public Employees’ Pension Reform Act of 2013 (“PEPRA”).

The following description of Salinas Valley Memorial Healthcare District Employees Pension Plan (the “Plan”) provides only general information. Participants should refer to the plan document for a more complete description of the Plan’s provisions.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation – The consolidated financial statements include the accounts of SVHMC and all subsidiaries that are controlled and owned more than 50% for which day-to-day operations are managed by SVH. All intercompany accounts and transactions are eliminated upon consolidation. Investments for which SVH has 50% or less ownership and over which SVH does not have control are recorded using the equity method. Minority interest represents the proportionate share of the equity in affiliates that is attributable to the minority owners.

Salinas Valley Memorial Healthcare System Notes to Consolidated Financial Statements (in Thousands)

Acquired businesses are included in the consolidated financial statements from the date of acquisition.

Basis of accounting – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”) using the “economic resources measurement focus”; the accrual basis of accounting; the California Code of Regulations, Title 2, Section 1131, State Controller’s *Minimum Audit Requirements* for California Special Districts; and the State Controller’s Office prescribed reporting guidelines. In addition, these statements follow generally accepted accounting principles applicable to the healthcare industry, which are included in the American Institute of Certified Public Accountants’ *Audit and Accounting Guide, Healthcare Entities*, to the extent that these principles do not contradict GASB standards.

SVH utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and financial statements are prepared using the economic resources measurement focus.

Recently adopted accounting pronouncements – In May 2020, the GASB issued Statement No. 96, *Subscription-Based IT Arrangements* (“GASB No. 96”). The statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users (governments). This statement defines an SBITA; establishes that an SBITA results in a right-to-use subscription asset (“subscription asset”) – an intangible asset – and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and requires disclosures regarding SBITAs. SVH adopted GASB No. 96 as of July 1, 2022, applied retrospectively. SVH calculated and recognized subscription assets, net, of \$19.4 million and subscription liabilities of \$19.4 million as of July 1, 2022. The impact to net position at July 1, 2022, was not significant. See Note 14 for further discussion of subscription assets and liabilities. See Note 15 for further discussion of impact of the adoption on SVH’s consolidated financial statements.

New accounting pronouncements – In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. This statement requires that (1) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (2) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (3) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The statement is effective for fiscal years beginning after June 15, 2023. SVH is currently evaluating the impact of the adoption of this statement on its consolidated financial statements.

Salinas Valley Memorial Healthcare System Notes to Consolidated Financial Statements (in Thousands)

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The statement updates the recognition and measurement guidance for compensated absences. This statement 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, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. The statement amends the existing requirements to disclose only the net change in the liability instead of the gross additions and deductions to the liability. This statement is effective for fiscal years beginning after December 15, 2023. SVH is currently evaluating the impact of the adoption of this statement on its consolidated financial statements.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, amounts due to third-party payors, self-insurance liabilities, and employee benefit costs including pension. Actual results could differ from those estimates.

Fair value of financial instruments – Unless otherwise indicated, the fair value of all reported assets and liabilities that represents financial instruments approximates their carrying values. SVH's policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 as of the end of the reporting period. See Note 5 for further discussion of fair value measurements in the consolidated financial statements.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an initial maturity of three months or less, excluding amounts whose use is limited by Board designation or other arrangements. Cash and cash equivalents also include investments in the Local Agency Investment Fund ("LAIF"), the State Treasurer's pooled investment program, and values participants' shares on an amortized cost basis.

Supplies inventory – Supply inventories are valued at the lower of cost (first-in, first-out method) or market.

Lease receivable – SVH's lease receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, SVH may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. The deferred inflow of resources is recorded at the initiation of each lease in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources are amortized using the effective-interest method over the term of each lease.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Investments – U.S. Treasury securities, federal agency debt securities, corporate notes, and equity securities, which are reported as board-designated funds and investments, are carried at fair value based on published market values, as quoted on a recognized exchange or an industry standard pricing service. Short-term investments in commercial paper, certificates of deposit, and money market accounts are recorded at amortized cost, which approximates market value. Mutual funds are carried at fair value based on the fund’s current share price. These investments are subject to various risks, such as interest rate, market, and credit risks.

Investment transactions are recorded on the date the investments are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the cost of the investment sold.

Board-designated funds – Board-designated funds include assets set aside by the Board of Directors for future capital improvements or for certain contingencies, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets held by trustees under agreements with third parties.

Capital assets – Capital asset acquisitions are recorded at cost. Capital assets donated for SVH operations are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital lease is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. SVH capitalizes all purchases of computers and copiers over \$1 thousand, general acquisitions over \$2 thousand, and group purchases over \$10 thousand. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	20 to 40 years
Buildings and improvements	20 to 40 years
Moveable equipment	3 to 20 years

Upon disposition or retirement of capital assets, the undepreciated cost basis less proceeds from sale, if any, are reflected in nonoperating gains and losses in the period of disposition.

SVH evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset. Management evaluates prominent events or changes in circumstances to determine whether an impairment loss should be recognized. There were no impairment losses during the years ended June 30, 2023 and 2022.

Right-of-use assets – SVH has recorded right-of-use assets as a result of implementing GASB Statement No. 87, *Leases* (“GASB No. 87”). The right-of-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 and ancillary charges necessary to place the lease into service, less any lease incentives received. The right-of-use assets are amortized on a straight-line basis over the life of the related lease. See Note 13 for further discussion of right-of-use assets.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Subscription assets – SVH has recorded subscription assets as a result of implementing GASB No. 96. The subscription assets are initially measured at an amount equal to the initial measurement of the sum of the related subscription liability, any contract payments made to the subscription-based IT arrangement (“SBITA”) vendor at subscription term commencement, and any capitalizable initial implementation costs, less any incentive payments received from the vendor at the subscription term commencement. Subscription assets are amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying assets. See Note 14 for further discussion of subscription assets.

Deferred outflows and inflows – SVH records deferred outflows or inflows of resources in its consolidated financial statements for consumption or acquisition of its consolidated net position that is applicable to future reporting periods. These consolidated financial statement elements are distinct from assets and liabilities. The table below reflects the components of deferred outflows and inflows as of June 30, in thousands:

	2023	2022
Deferred outflows - actuarial:		
Pension	\$ 116,122	\$ 95,009
Post-retirement medical plans	789	848
Total deferred outflows - actuarial	116,911	95,857
Deferred outflows - goodwill	1,137	1,388
Total deferred outflows	<u>\$ 118,048</u>	<u>\$ 97,245</u>
Deferred inflows - actuarial:		
Pension	\$ 62,029	\$ 78,360
Post-retirement medical plans	1,752	751
Total deferred inflows - actuarial	63,781	79,111
Deferred inflows - leases	2,219	2,357
Total deferred inflows	<u>\$ 66,000</u>	<u>\$ 81,468</u>

Lease liabilities – SVH recognizes lease contracts or equivalents that have a term exceeding one year and the cumulative undiscounted future payments on the contract exceeding \$50 thousand that meet the definition of an other-than-short-term lease. Lease liabilities are recorded as the present value of the undiscounted future lease payments. SVH 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 SVH’s incremental borrowing rate at start of the lease for a similar asset type and term length to the contract. Short-term lease payments for leases with an original term of one year or less are expensed as incurred. See Note 13 for further discussion of lease liabilities.

Salinas Valley Memorial Healthcare System Notes to Consolidated Financial Statements (in Thousands)

Subscription liabilities – SVH has recorded subscription liabilities as a result of implementing GASB No. 96. SVH recognizes SBITA contracts or equivalents that have a term exceeding one year and the cumulative future payments on the contract exceeding \$50 thousand that meet the definition of an other-than-short-term SBITA. Subscription liabilities are initially measured at an amount equal to the present value of the undiscounted future payments under the SBITA. SVH uses a discount rate that is explicitly stated or implicit in the contract to determine the value of the subscription liability. When a readily determinable discount rate is not available, the discount rate is determined using SVH's incremental borrowing rate at start of the subscription term for a similar asset type and term length to the contract. As variable payments based upon the use of the underlying subscription asset are not fixed in nature, such amounts are excluded from subscription liabilities. Short-term subscription payments with an original subscription term of one year or less are expensed as incurred. See Note 14 for further discussion of subscription liabilities.

Risk management – SVH is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health and accident benefits; and medical malpractice. SVH utilizes both commercial insurance and self-insurance for claims arising from such matters. SVH is self-insured for workers' compensation claims, professional liability, and health benefits. Settled claims have not exceeded SVH's policy limits in any of the past three fiscal years.

Self-insurance plans – SVH is self-insured for workers' compensation benefits for employees. An actuarial estimate is accrued based on an expected, undiscounted estimate as of June 30, 2023 and 2022.

SVH is a member of and participates in a professional liability self-insurance program through BETA Healthcare Group ("BETA"), a joint powers authority whose members include district and private not-for-profit hospitals and county facilities in California. Amounts paid by each member to BETA represent actuarially determined assessments of claims payable and estimated incurred-but-not-reported claims that are adjusted periodically based on the claims experience for each member at each hospital. Claims in excess of specified amounts are the responsibility of individual program participants.

SVH provides eligible employees with health benefits through a self-insured program. The liability for claims arising from this program is estimated based upon historical experience and trending information.

Net position – Net position is required to be classified for accounting and reporting purposes in the following categories:

- *Invested in capital assets, net of related debt* – Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Reserved for minority interest* – Net position of legally separate organization attributable to other participants.
- *Restricted* – SVH classifies net position resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Salinas Valley Memorial Healthcare System Notes to Consolidated Financial Statements (in Thousands)

- *Expendable* – Net position whose use by SVH is subject to externally imposed restrictions that can be fulfilled by actions of SVH pursuant to those restrictions or that expire by the passage of time.
- *Nonexpendable* – Net position that includes donor restricted requirements to invest the principal portion in perpetuity.
- *Unrestricted* – Net position that is neither restricted nor invested in capital assets, net of related debt. Unrestricted net position may be designated for specific purposes by management or the Board of Directors.

Statements of revenues, expenses, and changes in net position – For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions, including investment income, interest expense, and gains or losses on the disposal of capital assets, are reported as nonoperating income and expense.

Net patient service revenues – Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

Grants and contributions – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Management has not yet determined the full financial impact of these events. The Centers for Medicare & Medicaid Services (“CMS”) distributed \$50 billion of the \$100 billion in the form of grants to hospitals. For the year ended June 30, 2022, SVH received approximately \$12.2 million of provider relief funds. SVH did not receive additional funds in the fiscal year ended June 30, 2023. SVH recognized \$12.2 million for the year ended June 30, 2023, included as grants and contributions in the consolidated statement of revenues, expenses, and changes in net position. SVH will have to submit reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions.

Separately, CMS initiated an Accelerated Payment Program (“Medicare Accelerated Payments”) to hospitals. The Medicare Accelerated Payments represent advance payments for services to be provided and were based on a hospital’s historical Medicare volume. In April 2020, SVH received approximately \$66 million in Medicare Accelerated Payments. CMS began recoupment of these payments in April 2021 and will continue to recoup the accelerated payments from billings for services rendered until they are fully repaid. As of June 30, 2023 and 2022, SVH had \$0 million and \$21.0 million, respectively, in Medicare Accelerated Payments, included in Advanced payments – Medicare in the consolidated statements of financial position. During the years ended June 30, 2023 and 2022, approximately \$21.0 million and \$39.0 million, respectively, was recouped.

Salinas Valley Memorial Healthcare System Notes to Consolidated Financial Statements (in Thousands)

For the year ended June 30, 2023, SVH was obligated and received approximately \$5,643,000 in Disaster Relief Funds from the Federal Emergency Management Agency and has recognized this in grant and contribution revenue in the consolidated statements of revenues, expenses and changes in net position.

Charity care – SVH provides care without charge or at less than its established rates to patients who meet certain criteria under its charity care policy. Because SVH does not pursue collection of amounts determined to qualify as charity care, such amounts are not included in net patient service revenues. Charges forgone, based on established rates for the years ended June 30, 2023 and 2022, were \$7.7 million and \$9.6 million, respectively.

Property taxes – SVH, as part of a California special district, receives property taxes that are assessed by Monterey County. Such amounts are recorded within nonoperating income in the consolidated statements of revenues, expenses, and changes in net position.

Aspire Health Plan – SVH provided funding to Aspire Health Plan, a California nonprofit mutual benefit corporation that operates a Medicare Advantage plan, in exchange for a 49% membership voting interest. Initial funding of \$1.5 million was reported as other long-term assets in the consolidated statement of net position as of June 30, 2017. Additional funding of \$6.4 million and \$4.8 million was included within nonoperating expenses in the consolidated statements of revenue, expense, and changes in net position, for the years ended June 30, 2023 and 2022, respectively, due to the uncertain nature of repayments of ongoing funding.

Concentration of credit risk – SVH is highly dependent upon government programs and nongovernmental third-party payors for its revenues. Net patient service revenue from Medicare amounted to 24% and 20% and negotiated third-party payors amounted to 44% and 47% of total net patient service revenues for the years ended June 30, 2023 and 2022, respectively. Significant concentrations of net patient accounts receivable include Medicaid at 14% and 15% and negotiated third-party payors at 67% and 70% at June 30, 2023 and 2022, respectively.

Income taxes – SVH, being a governmental entity, is therefore tax-exempt. All of its consolidated subsidiaries are either not-for-profit corporations or partnerships and are, therefore, not subject to income taxes.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Note 3 – Net Patient Service Revenues

Net patient service revenues for the years ended June 30 consisted of the following, in thousands:

	2023	2022
Gross patient service revenues:		
Routine inpatient services	\$ 448,297	\$ 379,768
Ancillary services	2,017,083	1,776,262
Outpatient services	553,109	500,787
Total gross patient service revenues	<u>3,018,489</u>	<u>2,656,817</u>
Deductions from gross patient service revenues:		
Contractual allowance for statutory and negotiated rates	(2,236,297)	(1,925,356)
Provision for doubtful accounts	(47,598)	(45,609)
Charity care	(7,724)	(9,593)
Net patient service revenues	<u>\$ 726,870</u>	<u>\$ 676,259</u>

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

Medicare – Medicare patient revenues include traditional reimbursement under Title XVIII of the Social Security Act. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification SVH that is based on clinical, diagnostic, and other factors. Medicare reimburses hospitals for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment SVH based upon ambulatory payment classifications.

Certain inpatient and outpatient pass-through costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. SVHMC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by SVHMC and audits thereof by the Medicare administrative contractor. SVHMC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with SVHMC. SVHMC's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2019.

Medi-Cal – Medi-Cal patient revenues include traditional reimbursement under the California State Department of Health Services for patients covered under Title XIX of the Social Security Act. Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a contract at prospectively determined negotiated per diem rates. Outpatient services are reimbursed based on a schedule of maximum allowances. For certain inpatient services, SVHMC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by SVHMC and audits thereof by Medi-Cal. SVHMC's Medi-Cal cost reports have been audited by Medi-Cal through June 30, 2019.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Other – SVHMC has entered into agreements with numerous nongovernment third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with commercial insurance companies, including workers' compensation plans, which reimburse SVHMC at a percentage of SVHMC's charges.

Billings relating to services rendered are recorded as net patient service revenues in the period in which the service is performed, net of contractual and other allowances that represent differences between gross charges and the estimated receipts under such programs. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Receivables for patient care are also reduced for allowances for uncollectible accounts.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Account balances are written off against the allowance when management determines it is probable the receivable will not be recovered. The use of historical collection and payor reimbursement experience is an integral part of the estimation of reserves for uncollectible accounts. Revisions in reserves for uncollectible accounts estimates are recorded as an adjustment to the provision for bad debts.

At the current time there is uncertainty about reimbursements from government programs. Centers for Medicare & Medicaid Services has proposed reductions in rates, which would result in a decrease in Medicare reimbursements. The state budget contains healthcare budget cuts that may affect reimbursements for noncontracted Medi-Cal services. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Under Assembly Bill 1383 of 2009, as amended by Assembly Bill 1653 on September 8, 2010 (collectively, the "Bill"), which establishes a hospital fee program, SVH is exempt from the quality assurance fee but is eligible for supplemental payments under the second part of the Bill, and received \$0 million and \$3.9 million, respectively, in the years ended June 30, 2023 and 2022, as included in net patient service revenue in the accompanying consolidated statements of revenues, expenses, and changes in net position.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Note 4 – Cash, Cash Equivalents, Investments, and Board-Designated Funds

As of June 30, cash and cash equivalents, investments, and board-designated funds, at fair value, consisted of the following, in thousands:

	2023	2022
Cash and cash equivalents	\$ 335,989	\$ 315,889
Short-term investments	62,285	81,147
Board-designated funds	157,875	148,633
Long-term investments	102,498	74,674
Total	\$ 658,647	\$ 620,343

As of June 30, Board-designated funds, at fair value, have been set aside as follows, in thousands:

	2023	2022
By Board for capital improvements	\$ 157,785	\$ 148,543
By agreement with secured vendor	90	90
Total	\$ 157,875	\$ 148,633

As of June 30, 2023, maturities for SVH's holdings were as follows, in thousands:

	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Cash and cash equivalents	\$ 335,989	\$ 335,989	\$ -	\$ -	\$ -
U.S. Treasury notes	99,766	-	80,088	13,816	5,862
Municipal notes	128,977	-	35,320	52,477	41,180
Corporate notes	71,133	-	16,841	5,305	48,987
Bank certificates of deposit	90	-	90	-	-
Money market accounts	4,201	4,201	-	-	-
Mutual funds	18,491	18,491	-	-	-
Total	\$ 658,647	\$ 358,681	\$ 132,339	\$ 71,598	\$ 96,029

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

As of June 30, 2022, maturities for SVH's holdings were as follows, in thousands:

	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Cash and cash equivalents	\$ 315,889	\$ 315,889	\$ -	\$ -	\$ -
U.S. Treasury notes	62,869	-	47,079	-	15,790
Municipal notes	153,867	-	23,034	35,132	95,701
Corporate notes	62,967	-	10,947	16,956	35,064
Bank certificates of deposit	90	-	90	-	-
Money market accounts	7,102	7,102	-	-	-
Mutual funds	17,559	17,559	-	-	-
Total	\$ 620,343	\$ 340,550	\$ 81,150	\$ 52,088	\$ 146,555

The following table below identifies the investment types that are authorized for SVHMC by the California Government Code (or SVHMC's investment policy, where more restrictive). There are no restrictions over the maximum percentage that one investment can represent of the total portfolio, nor any restrictions over the maximum amount of investment in any one issuer. The Foundation and CCMSO are not required to follow the California Government Code.

Authorized Investment Type	Maturity
U.S. Treasury obligations	5 years
U.S. agency securities	5 years
Corporate bonds	5 years
Commercial paper	180 days
Mutual funds	N/A
Money market mutual funds	N/A

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SVH manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by maintaining fully liquid investments as needed to fund operations.

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following table illustrates the fair value and associated credit ratings of investments held by SVH at June 30, 2023 and 2022, in thousands:

Investment Type	Fair Value at June 30,		Ratings
	2023	2022	
Cash and cash equivalents	\$ 335,989	\$ 310,204	N/A
U.S. Treasury notes	99,766	62,869	Unrated
Municipal notes	128,977	153,867	Various
Corporate notes	71,133	62,967	Various
Bank certificates of deposit	90	90	AAA
Money market accounts	4,201	12,787	N/A
Mutual funds	18,491	17,559	Not rated
Total	\$ 658,647	\$ 620,343	

Concentration of credit risk – The investment policy of SVH contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and SVHMC's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depositor regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. This requirement does not apply to the consolidated subsidiaries of SVH.

As of June 30, 2023 and 2022, approximately \$6.4 million and \$13.8 million, respectively, of SVH's consolidated subsidiaries' deposits with financial institutions in excess of federal depositor insurance limits were held in accounts not subject to collateralization. SVH's securities are registered under the specific entity's name by the custodial bank as an agent for SVH. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, management considers custodial credit risk to be remote.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Note 5 – Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following describes three levels of inputs that may be used to measure fair value under GASB Statement No. 72, *Fair Value Measurement and Application*:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the consolidated statements of net position at June 30, 2023 and 2022, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Mutual funds – Valued at the net asset value of shares held by SVH and are valued at the closing price reported on the active market on which the individual securities are traded.

Municipal notes, corporate notes, U.S. Treasury notes, other fixed income, and federal agency notes – Valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following tables present the assets measured at fair value on a recurring basis in the accompanying consolidated statements of net position at June 30, 2023 and 2022, as stratified by fair value hierarchy level, in thousands:

Description	Level 1	Level 2	Level 3	June 30, 2023
Investments by fair value level:				
U.S. Treasury notes	\$ 99,766	\$ -	\$ -	\$ 99,766
Municipal notes	128,977	-	-	128,977
Corporate notes	71,133	-	-	71,133
Mutual funds	18,491	-	-	18,491
Total by fair value level	\$ 318,367	\$ -	\$ -	318,367
Cash equivalents:				
Local agency investment fund				94
Cash holdings				335,895
Total cash equivalents				335,989
Bank certificates of deposit				
Money market accounts				90
				4,201
Total investments				\$ 658,647
Description	Level 1	Level 2	Level 3	June 30, 2022
Investments by fair value level:				
U.S. Treasury notes	\$ 62,869	\$ -	\$ -	\$ 62,869
Municipal notes	153,867	-	-	153,867
Corporate notes	62,967	-	-	62,967
Mutual funds	17,559	-	-	17,559
Total by fair value level	\$ 297,262	\$ -	\$ -	297,262
Cash equivalents:				
Local agency investment fund				64,450
Cash holdings				245,754
Total cash equivalents				310,204
Bank certificates of deposit				
Money market accounts				90
				12,787
Total investments				\$ 620,343

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Fiduciary – Employees’ Pension Plan – The following tables present the assets measured at fair value on a recurring basis in the accompanying fiduciary statements of net position at June 30, 2023 and 2022, as stratified by fair value hierarchy level, in thousands:

<u>June 30, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity securities	\$ 282,251	\$ -	\$ -	\$ 282,251
Fixed income	121,469	-	-	121,469
Total	\$ 403,720	\$ -	\$ -	\$ 403,720
<u>June 30, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Equity securities	\$ 305,051	\$ -	\$ -	\$ 305,051
Fixed income	137,324	-	-	137,324
Total	\$ 442,375	\$ -	\$ -	\$ 442,375

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Note 6 – Capital Assets

The following table summarizes SVH's capital asset activity during the year ended June 30, 2023, in thousands:

	June 30, 2022	Increases	Decreases	Transfers	June 30, 2023
Capital assets not depreciated:					
Land	\$ 26,059	\$ -	\$ -	\$ -	\$ 26,059
Construction in progress	11,591	24,599	-	(2,182)	34,008
Total capital assets not depreciated	37,650	24,599	-	(2,182)	60,067
Capital assets being depreciated/amortized:					
Buildings and improvements	387,344	92	-	1,956	389,392
Movable equipment	237,435	10,651	(6,374)	226	241,938
Intangibles	4,570	4	-	-	4,574
Land improvements	2,080	-	-	-	2,080
Total capital assets being depreciated	631,429	10,747	(6,374)	2,182	637,984
Less: accumulated depreciation and amortization for:					
Buildings and improvements	229,936	11,867	-	-	241,803
Movable equipment	182,859	15,256	(4,980)	-	193,135
Intangibles	5,041	265	-	-	5,306
Land improvements	1,519	53	-	-	1,572
Total accumulated depreciation and amortization	419,355	27,441	(4,980)	-	441,816
Total capital assets being depreciated, net	212,074	(16,694)	(1,394)	2,182	196,168
Capital assets, net	\$ 249,724	\$ 7,905	\$ (1,394)	\$ -	\$ 256,235

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following table summarizes SVH's capital asset activity during the year ended June 30, 2022, in thousands:

	June 30, 2021	Increases	Decreases	Transfers	June 30, 2022
Capital assets not depreciated:					
Land	\$ 26,059	\$ -	\$ -	\$ -	\$ 26,059
Construction in progress	8,601	10,662	-	(7,672)	11,591
Total capital assets not depreciated	34,660	10,662	-	(7,672)	37,650
Capital assets being depreciated/amortized:					
Buildings and improvements	382,851	161	-	4,332	387,344
Moveable equipment	226,505	8,802	(1,212)	3,340	237,435
Intangibles	4,564	6	-	-	4,570
Land improvements	2,080	-	-	-	2,080
Total capital assets being depreciated	616,000	8,969	(1,212)	7,672	631,429
Less: accumulated depreciation and amortization for:					
Buildings and improvements	217,729	12,207	-	-	229,936
Moveable equipment	169,755	14,207	(1,103)	-	182,859
Intangibles	4,777	264	-	-	5,041
Land improvements	1,465	54	-	-	1,519
Total accumulated depreciation and amortization	393,726	26,732	(1,103)	-	419,355
Total capital assets being depreciated, net	222,274	(17,763)	(109)	7,672	212,074
Capital assets, net	\$ 256,934	\$ (7,101)	\$ (109)	\$ -	\$ 249,724

SVH reached an agreement with the State of California to meet the California Hospital Seismic Safety Act ("SB1953") by retrofitting and strengthening the existing building. These improvements will result in compliance with SB1953 until January 1, 2030.

Note 7 – Investments in Affiliates

SVH has the following investments in joint ventures, which are accounted for in accordance with GASB Statement No. 14, *The Financial Reporting Entity*:

- Community Health Innovations, LLC ("CHI"), an integrated population health initiative.
- Monterey Peninsula Surgery Center ("MPSC"), a partnership that operates an outpatient Surgery Center.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

- Monterey Bay Endoscopy Center, LLC (“MBEC”), an outpatient diagnostic center for gastroenterology procedures.
- 21st Century Oncology (“USCC”), a partnership with GenesisCare (formerly known as U.S. Cancer Care).
- Mood Health (“MOOD HEALTH”), equity investment in a start-up company specializing in using technology to help provide psychiatry and therapy and is used by Salinas Valley Health patients.

The following table summarizes the percentage interest of and balance of investments in affiliates at June 30, 2023 and 2022:

Affiliate	Percentage Interest		Investment Balance	
	2023	2022	2023	2022
CHI	49%	49%	\$ 1,681	\$ 1,644
MPSC	12%	13%	6,523	6,876
USCC	40%	40%	2,577	2,981
MBEC	14%	14%	1,786	1,765
MOOD HEALTH	6%	n/a	1,500	-
			<u>\$ 14,067</u>	<u>\$ 13,266</u>

Financial information for these affiliates can be obtained from SVH at 450 E. Romie, Salinas, California 93901.

Note 8 – Related-Party Transactions

Central Coast VNA & Hospice, Inc., leases building space from SVH and paid rent in the amount of \$309 thousand and \$300 thousand during the years ended June 30, 2023 and 2022, respectively.

The Salinas Valley Memorial Hospital Service League (“Service League”) is an organization formed for the benefit of SVHMC. Expenses paid by SVHMC on behalf of the Service League during the years ended June 30, 2023 and 2022, totaled \$2.2 million and \$1.7 million, respectively.

Note 9 – Self-Insurance Liability

SVHMC is self-insured for workers’ compensation claims. Estimated losses of \$15.5 million and \$15.6 million have been accrued under actuarially determined calculations at June 30, 2023 and 2022, of which approximately \$2.5 million and \$2.4 million are considered current liabilities, respectively.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following is a summary of changes in workers' compensation self-insurance liabilities for 2023 and 2022, in thousands:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2023	\$ 15,594	\$ 3,757	\$ (3,828)	\$ 15,523	\$ 2,495
2022	\$ 16,087	\$ 3,717	\$ (4,210)	\$ 15,594	\$ 2,378

SVHMC is self-insured for employee medical coverage. The estimated liability for employee medical coverage claims incurred but not reported is based on historical claims experience and is considered a current liability. The balances at June 30, 2023 and 2022, were approximately \$8.0 million and \$8.0 million, respectively.

SVHMC maintains a \$40.0 million claims-made medical malpractice policy with BETA, a shared risk pool for California hospital districts. Membership of the Board of BETA is comprised of management of district hospitals. Hospital premiums are established annually based on the experience of the pool and SVHMC. SVHMC paid premiums of approximately \$1.8 million and \$1.9 million to BETA for the years ended June 30, 2023 and 2022, respectively. SVHMC's policy with BETA is renewed every 12 months; the most recent renewal date was July 1, 2023. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. SVHMC may purchase extended reporting endorsements upon cancellation. The length of the reporting endorsement is not limited. As SVHMC has retained risk for claims incurred during the policy period that are not reported prior to the expiration of the policy, the liability for such retained medical malpractice risk has been recorded on SVH's consolidated financial statements. Such liability has been actuarially determined, is considered a current liability, and at June 30, 2023 and 2022, was approximately \$2.3 million and \$2.8 million, respectively.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Note 10 – Notes Payable, Net

The following table summarizes activity in notes payable, net, during the year ended June 30, 2023, in thousands:

	June 30, 2022	Decreases	Total	June 30, 2023	
				Current Portion	Long-Term Portion
Note payable, due in monthly installments of approximately \$10 thousand including interest at 3.99%, with balance due in 2030, collateralized by specified property.	\$ 855	\$ (100)	\$ 755	\$ 101	\$ 654
	855	\$ (100)	755	\$ 101	\$ 654
Less: current portion	101		101		
Notes payable, net of current portion	\$ 754		\$ 654		

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following table summarizes activity in notes payable, net, during the year ended June 30, 2022, in thousands:

	June 30, 2021	Decreases	June 30, 2022		
			Total	Current Portion	Long-Term Portion
Note payable, due in monthly installments of approximately \$10 thousand including interest at 3.99%, with balance due in 2030, collateralized by specified property.	\$ 949	\$ (94)	\$ 855	\$ 101	\$ 754
CCMSO loan under the Paycheck Protection Program under the CARES Act. The loan bears interest at 1% with no payments for the first six months. Monthly payments of principal and interest of approximately \$61 thousand begin in November 2020 and continue through maturity in April 2022, if required. The loan is subject to partial or full forgiveness if the CCMSO uses all proceeds for eligible purposes; maintains certain employment levels; and maintains certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance.	1,079	(1,079)	-	-	-
	<u>2,028</u>	<u>\$ (1,173)</u>	855	<u>\$ 101</u>	<u>\$ 754</u>
Less: current portion	<u>765</u>		<u>101</u>		
Notes payable, net of current portion	<u>\$ 1,263</u>		<u>\$ 754</u>		

Certain bank loans contain clauses that allow the bank to accelerate the amount due, without objective criteria (subjective acceleration clauses); management considers the likelihood of these clauses being invoked to be remote and has therefore classified this debt as current and noncurrent based on scheduled payment due dates.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Future debt service payments for each of the five fiscal years subsequent to June 30, 2023, and thereafter are as follows, in thousands:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 101	\$ 24	\$ 125
2025	109	20	129
2026	109	20	129
2027	114	15	129
2028	123	6	129
Thereafter	199	79	278
Total	<u>\$ 755</u>	<u>\$ 164</u>	<u>\$ 919</u>

Note 11 – Employee Benefit Plans

Salinas Valley Memorial Healthcare District employees’ pension plans – All permanent employees, including executive management, are eligible to participate in appropriate pension plans sponsored by SVHMC (the “Plans”).

Under the various plans sponsored by SVHMC, permanent employees can participate after completing three years of service and reaching the age of 21 and, in other cases, eligible employees can participate after one year of service. The Plans are single-employer defined benefit retirement plans administered by SVHMC. The Plans also provide retirement, disability, and death benefits based on the employee’s years of service, age, and annual compensation during covered employment. Employees generally vest after five years of service, are eligible to receive benefits after 10 years, and may receive early retirement benefits at age 50 with 15 years of service. Normal retirement is at age 65 with at least 10 years of service. In other cases, employees are not eligible to receive benefits until reaching normal retirement at age 65 or an agreed-upon date of retirement beyond age 65. Effective March 31, 2011, the Plans were amended to cease further benefit accruals for nonunion employees. These benefit provisions and all other requirements are established by the District’s Board of Directors. Separate financial statements are issued for the Salinas Valley Memorial Healthcare District employees’ pension plan.

Contributions – The Plan directs SVH to make contributions based on actuarially determined contribution amounts. SVH reserves the right to suspend or reduce contributions to the Plan at any time, upon appropriate action by the Board. In accordance with PEPR, certain members are required to make contributions based on a percentage of their eligible compensation to the Plan.

Benefits – The benefit formula payable to a participant who retires on his or her normal retirement date of age 65 shall be a monthly benefit for the life of the member. The benefit payable to a participant is computed as 2.45% of the participant’s earnings during a year of credited service, as defined by the Plan, multiplied by the number of years of credited service for the participant.

Salinas Valley Memorial Healthcare System **Notes to Consolidated Financial Statements** **(in Thousands)**

In accordance with the provisions of PEPRA, certain participants hired after January 1, 2013, who retire at their normal retirement age of age 65, shall receive a retirement benefit computed as 2.30% of the participant's final annual compensation multiplied by their number of years of service in the Plan.

A participant who has attained age 52, completed 15 years of service, and five years of plan participation may elect early retirement on the first day of any month prior to the participant's normal retirement date, with certain defined-benefit reductions. A participant may elect to receive benefits in the form of a single life annuity, alternate annuity option, certain period option, or Social Security adjustment option, as defined in the plan document. Upon the death of a participant who is currently employed by SVH and prior to commencement of payments of benefits under this Plan, death benefits are distributed to the designated beneficiary.

Vesting – Employees are eligible to receive benefits after a minimum of 10 years of service. Participants may receive early retirement benefits after a minimum of 15 years of service.

Plan termination – SVH expects to continue the Plan indefinitely but reserves the right to terminate the Plan at any time by appropriate action. In the event of such termination, each affected employee shall become 100% vested in the participant's accrued benefit.

Summary of Significant Accounting Policies – Fiduciary

Basis of accounting – The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units, using the accrual basis of accounting. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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 the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial value of assets and actuarial accrued liability at the date of the financial statements. Actual results could differ from those estimates.

Investment valuation – Investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price on the last business day of the plan year. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Income recognition – Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) in fair value of investments consists of both the realized gains and losses and unrealized appreciation and depreciation of those investments.

Benefit payments – Benefit payments to participants are recorded when paid.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Administrative expenses – The Plan’s administrative expenses are paid either by the Plan or SVH, as provided by the plan document. Certain expenses for the general administration of the Plan are paid directly by SVH and are excluded from the fiduciary financial statements. Certain investment-related expenses are included in investment income within the accompanying statements of changes in fiduciary net position.

SVHMC’s net pension liability (asset) was measured as of June 30, 2023 and 2022, as determined by an actuarial valuation as of December 31, 2022 and 2021, rolled forward to June 30, 2023 and 2022, respectively.

Employer contributions – Employer contributions are determined by SVH’s Board of Directors each year based on the actuarially determined required contribution amount calculated by the Plan’s independent actuary. The actuarially determined required contribution is determined as part of an actuarial valuation on January 1 of each year, using the traditional unit credit actuarial cost method. Actuarially determined contribution amounts were \$10.1 million and \$13.1 million for the years ended June 30, 2023 and 2022, respectively, all of which were contributed to the Plan as directed and approved by the Board. SVH, at the decision of the Board of Directors, contributed amounts greater than the actuarially determined contribution amounts. During the years ended June 30, 2023 and 2022, actual contributions were \$61.6 million and \$23.1 million, respectively, representing excesses of \$51.5 million and \$10.0 million, respectively.

Pension expense – Pension expense for SVHMC’s Plan is based upon GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement 27* (“GASB No. 68”). SVHMC’s funding policy is to contribute to the plans based on actuarial estimates of the annual required contributions, calculated using the traditional unit credit cost method.

Participant data for the Plan, as of the measurement dates, as follows:

	January 1, 2023	January 1, 2022
Active	1,265	1,261
Inactive	236	223
Retired and beneficiaries	438	744
Vested terminated	794	379
Total participants	2,733	2,607

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Components of pension cost and deferred outflows and inflows of resources as calculated under the requirements of GASB No. 68 are as follows, in thousands:

	June 30, 2023	June 30, 2022
Deferred outflows - actuarial:		
Difference between expected and actual experience	\$ 2,895	\$ 3,848
Changes in assumptions	16,331	26,532
Net difference between projected and actual earnings on pension plan investments	91,858	6,862
Contribution to the pension plan after measurement date	5,038	57,767
Total	\$ 116,122	\$ 95,009
Deferred inflows - actuarial:		
Difference between expected and actual experience	\$ 7,794	\$ 9,110
Changes in assumptions	10,379	12,780
Net difference between projected and actual earnings on pension plan investments	28,189	43,470
Additional pension expense recognition	15,667	13,000
Total	\$ 62,029	\$ 78,360

Amounts reported as deferred outflows – actuarial and deferred inflows – actuarial to pensions (net) will be recognized in pension expense as follows, in thousands:

<u>Years Ending June 30,</u>		
2024	\$	15,511
2025		5,039
2026		10,021
2027		14,093
2028		21,059
Thereafter		(1,001)
	\$	64,722

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following tables summarize changes in pension liability for fiscal years ended June 30, 2023 and 2022, with a measurement date of January 1, 2023 and 2022, respectively, in thousands:

	2023	2022
Total pension liability:		
Service cost	\$ 10,508	\$ 9,971
Interest on total pension liability	28,712	27,965
Difference between expected and actual experience	(2,138)	4,183
Changes of assumptions	-	(13,645)
Benefit payments	(18,836)	(16,233)
Net change in total pension liability	18,246	12,241
Total pension liability, beginning of year	440,485	428,244
Total pension liability, end of year	\$ 458,731	\$ 440,485

The following table summarizes the net pension liability (asset) at June 30, 2023 and 2022, as well as other required disclosures of financial measures, in thousands:

	2023	2022
Total pension liability	\$ 458,731	\$ 440,485
Plan fiduciary net position	(403,720)	(442,375)
Net pension liability (asset)	\$ 55,011	\$ (1,890)
Plan fiduciary net position as a percentage of the total pension liability	88.01%	100.43%
Covered-employee payroll	\$ 142,050	\$ 138,820
Plan net pension liability as of a percentage of covered-employee payroll	38.73%	-1.36%

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2023 and 2022:

Valuation date: Actuarially determined contributions are calculated as of January 1, the first day of the fiscal year in which the contributions are reported

Methods and assumptions used:

Actuarial cost method	Entry age normal
Inflation	2.25%
Salary increases	3.50% or 3.75% depending on unit, including inflation, plus step increases
Investment rate of return	6.50%, net of investment expense, including inflation
Retirement age:	
Normal retirement	65
Early retirement	50 and 15 years of vesting service
Mortality	PubG-2010 Generational Mortality Table for Males & Females, projected using MP-2021

The following table summarizes the impact of a 1% change in discount rate on the value of the net pension liability at June 30, 2023 and 2022, in thousands:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
June 30, 2023	\$ 115,491	\$ 55,011	\$ 4,568
June 30, 2022	\$ 56,596	\$ (1,890)	\$ (50,752)

Defined benefit post-retirement medical plans – SVHMC administers single-employer defined benefit healthcare reimbursement plans providing limited reimbursement for health insurance premiums paid by members of two bargaining units who retire early from their retirement date until they are eligible for Medicare. Benefit provisions are established through negotiations between SVHMC and the bargaining units and are renegotiated when bargaining agreements expire. The retiree health plans do not issue publicly available financial reports.

SVHMC funds the benefits on a pay-as-you-go basis. During the years ended June 30, 2023 and 2022, SVHMC contributed \$189 thousand and \$132 thousand, respectively, to fund benefits.

At June 30, the following employees were covered by SVHMC:

	2023	2022
Active employees	1,194	1,194
Retirees receiving benefits	100	100
Total plan participants	<u>1,294</u>	<u>1,294</u>

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Components of post-retirement medical benefits expense, as calculated under the requirements of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"), were as follows as of June 30, in thousands:

	2023	2022
Service cost	\$ 211	\$ 188
Interest	111	103
Differences between expected and actual experience	(48)	(7)
Changes of assumptions	(36)	7
Total post-retirement medical benefits expense	\$ 238	\$ 291

Deferred inflows and outflows of resources to post-retirement medical benefits under GASB No. 75 are as follows as of June 30, in thousands:

	2023	2022
Deferred outflows of resources as of June 30:		
Difference between expected and actual experience	\$ 348	\$ 376
Changes in assumptions	441	472
Total	\$ 789	\$ 848
Deferred inflows of resources as of June 30:		
Difference between expected and actual experience	\$ 893	\$ 407
Changes in assumptions	859	344
Total	\$ 1,752	\$ 751

Amounts reported as deferred outflows and inflows of resources to post-retirement medical benefits will be recognized in post-retirement medical benefits expense as follows for the years ending June 30, in thousands:

Year Ending June 30,		
2024	\$	(84)
2025		(84)
2026		(84)
2027		(84)
2028		(84)
Thereafter		(543)
	\$	(963)

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following table summarizes changes in post-retirement medical benefits liability, reflected as other long-term liabilities on the consolidated statements of net position, as of June 30, 2023 and 2022, with a measurement date of June 30, 2022 and 2021, respectively, in thousands:

	2023	2022
Service cost	\$ 211	\$ 188
Interest	111	103
Differences between expected and actual experience	(556)	352
Changes in assumptions	(583)	(61)
Contributions - employer	(189)	(132)
Net change	(1,006)	450
Net post-retirement medical benefits liability, beginning of year	5,007	4,557
Net post-retirement medical benefits liability, end of year	<u>\$ 4,001</u>	<u>\$ 5,007</u>

The following table summarizes the actuarial assumptions used to determine net pension asset and plan fiduciary net position as of June 30, 2023 and 2022:

Valuation Date	June 30, 2021
Actuarial cost method	Entry Age Normal
Asset valuation method	Not applicable
Actuarial assumptions:	
Projected salary increases	3.25%
Mortality	PubG-2010 Generational Mortality Tables projected using scale MP-2021 improvement table
Discount rate	4.09%
Healthcare cost trend rates:	6.25% for 2023, graded to 5.00% for year 2028 and beyond for ages pre-65; and 5% for year 2021 and beyond for ages post-65.

The following table summarizes the impact of a 1% change in discount rate on the value of the post-retirement medical benefits liability at June 30, 2023 and 2022, in thousands:

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2023	\$ 4,272	\$ 4,001	\$ 3,783
June 30, 2022	\$ 5,256	\$ 5,007	\$ 4,761

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following table summarizes the impact of a 1% change in healthcare cost trend rate on the value of the post-retirement medical benefits liability at June 30, 2023 and 2022, in thousands:

	1% Decrease	Current Cost Trend Rate	1% Increase
June 30, 2023	\$ 3,996	\$ 4,001	\$ 4,084
June 30, 2022	\$ 4,968	\$ 5,007	\$ 5,035

Note 12 – Compensated Absences

The employees of SVH can earn paid leave at varying rates depending on the length of service and job classification. Earned paid leave consists of vacation and holiday pay, which vests to the employee immediately, and sick leave, which is available to the employee only for absences for valid medical reasons. Employees can accumulate up to two years' accruals of paid leave. Upon termination, unused earned paid leave balances are paid in full. The following table summarizes changes in compensated absences for the years ended June 30, in thousands:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2023	\$ 20,753	\$ 34,443	\$ (33,733)	\$ 21,463	\$ 21,463
2022	\$ 20,232	\$ 35,457	\$ (34,936)	\$ 20,753	\$ 20,753

Note 13 – Leases

As discussed in Note 2, SVH recognizes right-of-use assets and lease liabilities at lease inception in an amount equal to the present value of the undiscounted future minimum lease payments. SVH 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 SVH's incremental borrowing rate at start of the lease for a similar asset type and term length to the contract.

SVH is a lessee for various noncancelable leases of office space and equipment with lease terms through 2031. During the years ended June 30, 2023 and 2022, there were no residual value guarantees included in the measurement of SVH's lease liabilities, and SVH did not incur any commitments at the commencement of any leases. There were no amounts recognized as variable lease payments as lease expense in the consolidated statements of changes of revenues, expenses, and net position during the years ended June 30, 2023 and 2022. SVH incurred no termination penalties during the years ended June 30, 2023 and 2022.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following tables summarize right-of-use asset activity during the years ended June 30, 2023 and 2022, in thousands:

June 30, 2023	Beginning Balance	Increases	Decreases	Ending Balance
Right-of-use assets	\$ 13,118	\$ 11,207	\$ (2,487)	\$ 21,838
Less: accumulated amortization	(5,827)	(3,545)	1,456	(7,916)
Right-of-use assets, net	<u>\$ 7,291</u>	<u>\$ 7,662</u>	<u>\$ (1,031)</u>	<u>\$ 13,922</u>
June 30, 2022	Beginning Balance	Increases	Decreases	Ending Balance
Right-of-use assets	\$ 12,485	\$ 633	\$ -	\$ 13,118
Less: accumulated amortization	(2,745)	(3,082)	-	(5,827)
Right-of-use assets, net	<u>\$ 9,740</u>	<u>\$ (2,449)</u>	<u>\$ -</u>	<u>\$ 7,291</u>

During the years ended June 30, 2023 and 2022, SVH recognized \$3,545 thousand and \$3,082 thousand, respectively, in amortization expense included within depreciation and amortization expense in the consolidated statements of revenues, expenses, and changes in net position.

The following table summarizes lease liability activity during the years ended June 30, 2023 and 2022, in thousands:

Year Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2023	\$ 7,620	\$ 10,033	\$ (2,572)	\$ 15,081	\$ 3,650
2022	\$ 10,038	\$ 638	\$ (3,056)	\$ 7,620	\$ 2,674

SVH's future principal and interest lease payments under lease agreements as of June 30, 2023, were as follows, in thousands:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 3,650	\$ 432	\$ 4,082
2025	3,209	306	3,515
2026	2,463	217	2,680
2027	2,094	147	2,241
2028	1,370	92	1,462
Thereafter	2,295	146	2,441
Total	<u>\$ 15,081</u>	<u>\$ 1,340</u>	<u>\$ 16,421</u>

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

SVH evaluated the right-of-use assets for impairment and determined no impairment occurred during the years ended June 30, 2023 and 2022.

SVH is also a lessor for noncancelable leases of office space with lease terms through 2026. For the years ended June 30, 2023 and 2022, SVH recognized \$138 thousand and \$849 thousand, respectively, in lease revenue released from the deferred inflows of resources related to the office lease included in other revenue within the consolidated statement of revenues, expenses, and changes in net position. No inflows of resources were recognized in the year related to termination penalties or residual value guarantees during fiscal years ended June 30, 2023 and 2022.

Note 14 – Subscription-Based Information Technology Arrangements

As discussed in Note 2, SVH accounts for SBITAs in accordance with GASB No. 96. SVH has entered into various SBITAs, with ranging maturities extending until 2028. During the years ended June 30, 2023 and 2022, total payments under SBITAs were \$5.9 million and \$4.9 million, respectively. Additionally, the SVH incurred no variable SBITA expenses during the years ended June 30, 2023 and 2022. SVH did not enter into any additional SBITAs that have yet to commence as of June 30, 2023.

The following tables summarize subscription asset activity during the years ended June 30, 2023 and 2022, in thousands:

June 30, 2023	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	\$ 19,920	\$ 360	\$ -	\$ 20,280
Less: accumulated amortization	(4,667)	(4,858)	-	(9,525)
Subscription assets, net	<u>\$ 15,253</u>	<u>\$ (4,498)</u>	<u>\$ -</u>	<u>\$ 10,755</u>
June 30, 2022	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	\$ 19,446	\$ 474	\$ -	\$ 19,920
Less: accumulated amortization	-	(4,667)	-	(4,667)
Subscription assets, net	<u>\$ 19,446</u>	<u>\$ (4,193)</u>	<u>\$ -</u>	<u>\$ 15,253</u>

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

The following table summarizes subscription liability activity during the years ended June 30, 2023 and 2022, in thousands:

Year Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2023	\$ 15,434	\$ 359	\$ (5,447)	\$ 10,346	\$ 4,631
2022	\$ 19,446	\$ 474	\$ (4,486)	\$ 15,434	\$ 5,319

SVH's future principal and interest payments under SBITAs as of June 30, 2023 were as follows, in thousands:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 4,631	\$ 224	\$ 4,855
2025	3,727	113	3,840
2026	1,327	59	1,386
2027	312	22	334
2028	322	12	334
Thereafter	27	1	28
Total	<u>\$ 10,346</u>	<u>\$ 431</u>	<u>\$ 10,777</u>

Note 15 – Restatements

The adoption of GASB No. 96 resulted in the following adjustments to the prior-period consolidated financial statements as of and for the year ended June 30, 2022, in thousands:

	As Previously Presented	Adjustment	As restated
Consolidated statement of net position:			
Assets and deferred outflows:			
Subscription assets, net of amortization	\$ -	\$ 15,253	\$ 15,253
Total other assets	\$ 100,191	\$ 15,434	\$ 115,625
Total assets	\$ 1,015,916	\$ 15,434	\$ 1,031,350
Total assets and deferred outflows	\$ 1,113,161	\$ 15,434	\$ 1,128,595
Liabilities, deferred inflows, and net position:			
Subscription liabilities, current portion	\$ -	\$ 5,319	\$ 5,319
Total current liabilities	\$ 136,071	\$ 5,319	\$ 141,390
Subscription liabilities, net of current portion	\$ -	\$ 10,115	\$ 10,115
Total liabilities	\$ 160,837	\$ 15,434	\$ 176,271
Total liabilities and deferred inflows	\$ 242,305	\$ 15,434	\$ 257,739
Net position, end of year	\$ 870,856	\$ -	\$ 870,856
Total liabilities, deferred inflows, and net position	\$ 1,113,161	\$ 15,434	\$ 1,128,595

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Consolidated statement of revenues, expenses, and changes in net position:

Depreciation and amortization expense	\$ 29,814	\$ 4,667	\$ 34,481
Purchased services	\$ 55,533	\$ (5,026)	\$ 50,507
Total operating expenses	\$ 650,000	\$ (359)	\$ 649,641
Operating income	\$ 45,653	\$ 359	\$ 46,012
Increase in net position	\$ 41,925	\$ -	\$ 41,925
Net position, end of year	\$ 870,856	\$ -	\$ 870,856

Consolidated statement of cash flows:

Cash flows from operating activities:

Cash payments to suppliers for goods and services	\$ (277,757)	\$ 5,398	\$ (272,359)
Net cash (used in) provided by operating activities	\$ (19,929)	\$ 5,398	\$ (14,531)

Cash flows from capital and related financing activities:

Payments on subscription liabilities	\$ -	\$ (4,924)	\$ (4,924)
Purchase of subscription assets	\$ -	\$ (474)	\$ (474)
Net cash used in capital and related financing activities	\$ (19,971)	\$ (5,398)	\$ (25,369)

Reconciliation of operating income to net cash (used in) provided by operating activities:

Operating income	\$ 45,653	\$ 359	\$ 46,012
Depreciation and amortization	\$ 29,814	\$ 4,667	\$ 34,481

Note 16 – Commitments and Contingencies

Litigation –SVH is involved in litigation related to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters will not have a material adverse effect on SVH's consolidated financial position.

Compliance – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. SVH is subject to such regulatory reviews, and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies would not have a material effect on SVH's consolidated financial position.

Salinas Valley Memorial Healthcare System
Notes to Consolidated Financial Statements
(in Thousands)

Regulatory environment – The healthcare 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, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 17 – Subsequent Events

Subsequent events are events or transactions that occur after the date of the consolidated statement of net position, but before the date the consolidated financial statements are available to be issued. SVH recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of net position, including the estimates inherent in the process of preparing the consolidated financial statements. SVH's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of net position, but arose after the date of the consolidated statement of net position and before the consolidated financial statements are available to be issued.

DRAFT
Not to be reproduced or relied
upon for any purpose

Supplementary Information

DRAFT

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position
June 30, 2023

	Salinas Valley Memorial Hospital	Central Coast Medical Service Organization	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	SVHC	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
ASSETS AND DEFERRED OUTFLOWS							
CURRENT ASSETS							
Cash and cash equivalents	\$ 328,844	\$ 4,456	\$ 714	\$ -	\$ 1,975	\$ -	\$ 335,989
Patient accounts receivable, net of estimated uncollectibles of \$27,288 at June 30, 2023	89,620	1,127	-	-	6,687	-	97,434
Short-term investments	62,285	-	-	-	-	-	62,285
Supplies inventory	8,016	155	-	-	-	-	8,171
Lease receivable, current portion	1,922	277	-	-	150	(1,082)	1,267
Other current assets	10,620	1,083	13	-	3,101	(654)	14,163
Total current assets	<u>501,307</u>	<u>7,098</u>	<u>727</u>	<u>-</u>	<u>11,913</u>	<u>(1,736)</u>	<u>519,309</u>
BOARD-DESIGNATED FUNDS	<u>157,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,875</u>
CAPITAL ASSETS							
Nondepreciable	58,876	1,191	-	-	-	-	60,067
Depreciable, net	186,953	3,872	-	590	4,753	-	196,168
Total capital assets, net	<u>245,829</u>	<u>5,063</u>	<u>-</u>	<u>590</u>	<u>4,753</u>	<u>-</u>	<u>256,235</u>
OTHER ASSETS							
Right-of-use assets, net of amortization	5,682	4,537	-	-	4,741	(1,038)	13,922
Subscription assets, net of amortization	10,755	-	-	-	-	-	10,755
Lease receivable, net of current portion	1,116	53	-	-	-	-	1,169
Long-term investments	83,122	-	19,376	-	-	-	102,498
Investments in affiliates	31,011	-	-	-	-	(16,944)	14,067
Other long-term assets	-	1,139	493	-	-	(191)	1,441
Total other assets	<u>131,686</u>	<u>5,729</u>	<u>19,869</u>	<u>-</u>	<u>4,741</u>	<u>(18,173)</u>	<u>143,852</u>
Total assets	<u>1,036,697</u>	<u>17,890</u>	<u>20,596</u>	<u>590</u>	<u>21,407</u>	<u>(19,909)</u>	<u>1,077,271</u>
DEFERRED OUTFLOWS - ACTUARIAL	116,911	-	-	-	-	-	116,911
DEFERRED OUTFLOWS - GOODWILL	532	-	-	-	605	-	1,137
Total deferred outflows	<u>117,443</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>605</u>	<u>-</u>	<u>118,048</u>
Total assets and deferred outflows	<u>\$ 1,154,140</u>	<u>\$ 17,890</u>	<u>\$ 20,596</u>	<u>\$ 590</u>	<u>\$ 22,012</u>	<u>\$ (19,909)</u>	<u>\$ 1,195,319</u>

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position (Continued)
June 30, 2023

	Salinas Valley Memorial Hospital	Central Coast Medical Service Organization	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	SVHC	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (DEFICIT)							
CURRENT LIABILITIES							
Notes payable, current portion	\$ -	\$ 262	\$ -	\$ -	\$ -	\$ (161)	\$ 101
Accounts payable	10,069	43	564	-	1,112	-	11,788
Accrued expenses	51,569	1,887	-	-	10,089	-	63,545
Estimated third-party payor settlements	5,404	-	-	-	-	-	5,404
Lease liabilities, current portion	1,895	907	-	-	1,930	(1,082)	3,650
Subscription liabilities, current portion	4,631	-	-	-	-	-	4,631
Self-insurance liabilities, current portion	12,874	-	-	-	-	-	12,874
Total current liabilities	<u>86,442</u>	<u>3,099</u>	<u>564</u>	<u>-</u>	<u>13,131</u>	<u>(1,243)</u>	<u>101,993</u>
NET PENSION LIABILITY	55,011	-	-	-	-	-	55,011
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	4,001	-	-	-	-	-	4,001
NOTES PAYABLE, net of current portion	-	845	-	-	-	(191)	654
LEASE LIABILITIES, net of current portion	3,980	4,463	-	-	2,988	-	11,431
SUBSCRIPTION LIABILITIES, net of current portion	5,715	-	-	-	-	-	5,715
SELF-INSURANCE LIABILITIES, net of current portion	13,027	-	-	-	-	-	13,027
Total liabilities	<u>168,176</u>	<u>8,407</u>	<u>564</u>	<u>-</u>	<u>16,119</u>	<u>(1,434)</u>	<u>191,832</u>
DEFERRED INFLOWS - ACTUARIAL	63,781	-	-	-	-	-	63,781
DEFERRED INFLOWS - LEASES	2,857	300	-	-	100	(1,038)	2,219
Total deferred inflows	<u>66,638</u>	<u>300</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>(1,038)</u>	<u>66,000</u>
Total liabilities and deferred inflows	<u>234,814</u>	<u>8,707</u>	<u>564</u>	<u>-</u>	<u>16,219</u>	<u>(2,472)</u>	<u>257,832</u>
NET POSITION (DEFICIT)							
Invested in capital assets, net of related debt	246,045	3,123	-	590	4,576	396	254,730
Reserved for minority interest	-	-	-	-	-	(4,705)	(4,705)
Restricted - expendable	-	-	5,602	-	-	-	5,602
Restricted - nonexpendable	-	-	1,205	-	-	-	1,205
Unrestricted	673,281	6,060	13,225	-	1,217	(13,128)	680,655
Total net position (deficit)	<u>919,326</u>	<u>9,183</u>	<u>20,032</u>	<u>590</u>	<u>5,793</u>	<u>(17,437)</u>	<u>937,487</u>
Total liabilities, deferred inflows, and net position (deficit)	<u>\$ 1,154,140</u>	<u>\$ 17,890</u>	<u>\$ 20,596</u>	<u>\$ 590</u>	<u>\$ 22,012</u>	<u>\$ (19,909)</u>	<u>\$ 1,195,319</u>

Salinas Valley Memorial Healthcare System
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2023

	Salinas Valley Memorial Hospital	Central Coast Medical Service Organization	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	SVHC	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
OPERATING REVENUES							
Net patient service revenues	\$ 625,279	\$ 20,676	\$ -	\$ 10,702	\$ 70,213	\$ -	\$ 726,870
Other revenues	17,574	-	-	-	13,958	(9,054)	22,478
Total operating revenues	<u>642,853</u>	<u>20,676</u>	<u>-</u>	<u>10,702</u>	<u>84,171</u>	<u>(9,054)</u>	<u>749,348</u>
OPERATING EXPENSES							
Salaries and wages	196,206	8,724	-	4,592	23,597	-	233,119
Compensated absences	33,521	838	-	922	2,604	-	37,885
Employee benefits	103,337	1,392	-	2,272	5,371	-	112,372
Supplies	81,354	1,418	-	765	7,256	-	90,793
Purchased services	44,450	815	1,540	348	15,265	(1,540)	60,878
Medical fees	24,389	2,961	-	2,455	54,605	(10,242)	74,168
Other fees	35,095	1,050	-	24	12,905	-	49,074
Depreciation and amortization	28,938	1,696	-	252	5,996	(1,038)	35,844
Other expenses	20,424	2,353	3,022	86	3,431	(1,533)	27,783
Total operating expenses	<u>567,714</u>	<u>21,247</u>	<u>4,562</u>	<u>11,716</u>	<u>131,030</u>	<u>(14,353)</u>	<u>721,916</u>
Operating income (loss)	<u>75,139</u>	<u>(571)</u>	<u>(4,562)</u>	<u>(1,014)</u>	<u>(46,859)</u>	<u>5,299</u>	<u>27,432</u>
NONOPERATING REVENUES AND EXPENSES							
Grants and contributions	16,407	210	4,254	-	3,850	(4,254)	20,467
Property tax revenue	5,721	-	-	-	-	-	5,721
Investment income (loss), net	15,819	76	1,689	-	1,885	(187)	19,282
(Provision for) reversal of credit losses	(6,362)	339	-	-	109	-	(5,914)
Gain (loss) on disposal of capital assets	(1,202)	160	-	-	-	-	(1,042)
(Loss) income from investments in affiliates	(43,415)	-	-	-	-	45,586	2,171
Other	1,429	(418)	512	-	2,975	(6,521)	(2,023)
Nonoperating (loss) income, net	<u>(11,603)</u>	<u>367</u>	<u>6,455</u>	<u>-</u>	<u>8,819</u>	<u>34,624</u>	<u>38,662</u>
Income before minority interest	<u>63,536</u>	<u>(204)</u>	<u>1,893</u>	<u>(1,014)</u>	<u>(38,040)</u>	<u>39,923</u>	<u>66,094</u>
CAPITAL TRANSFERS	-	(1,100)	-	861	33,085	(32,846)	-
MINORITY INTEREST IN NET INCOME OF CONSOLIDATED AFFILIATES	-	-	-	-	-	537	537
INCREASE (DECREASE) IN NET POSITION	<u>63,536</u>	<u>(1,304)</u>	<u>1,893</u>	<u>(153)</u>	<u>(4,955)</u>	<u>7,614</u>	<u>66,631</u>
NET POSITION, beginning of year	<u>855,790</u>	<u>10,487</u>	<u>18,139</u>	<u>743</u>	<u>10,748</u>	<u>(25,051)</u>	<u>870,856</u>
NET POSITION (DEFICIT), end of year	<u>\$ 919,326</u>	<u>\$ 9,183</u>	<u>\$ 20,032</u>	<u>\$ 590</u>	<u>\$ 5,793</u>	<u>\$ (17,437)</u>	<u>\$ 937,487</u>

Salinas Valley Memorial Healthcare System
Supplementary Schedule of Community Benefit (Unaudited)
Year Ended June 30, 2023

SVH maintains records to identify and monitor the level of direct community benefit it provides. These records include the charges foregone for providing the patient care furnished under its charity care policy. For the years ended June 30, 2023 and 2022, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows, in thousands:

	2023	2022
Unpaid costs of Medi-Cal programs	\$ 148,730	\$ 121,368
Indigent charity care and bad debt	11,005	10,981
	\$ 159,735	\$ 132,349

In furtherance of its purpose to benefit the community, SVH provides numerous other services to the community for which charges are not generated and revenues have not been accounted for in the accompanying consolidated financial statements. The services include health related programming and education that reached over 37,000 people in the community and participation in health fairs that reached over 7,000 people. The estimated costs of Medicare programs in excess of reimbursement from Medicare were \$184.3 million and \$164.4 million for the years ended June 30, 2023 and 2022, respectively.

SVH also provides services to the community through the operations of the Service League. Services provided by volunteers of the Service League, free of charge to the community, include assistance and counseling to patients and visitors, daily personal contact with members of the community who are living alone, career counseling and programs for local students, spiritual care volunteers representing many local faith community congregations, palliative care program assistance, and provision of scholarship awards to qualifying students in the medical professions. During the year ended June 30, 2023 and 2022, these volunteers contributed approximately 13,800 and 14,170 hours, respectively, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.

**Salinas Valley Memorial Healthcare System
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

Federal Grantor/Pass - Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
<i>U.S. Department of Health and Human Services</i>			
Direct Programs			
COVID-19 Provider Relief Funds and American Rescue Plan (ARP) Rural Distribution	93.498	N/A	\$ 12,150,139
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	N/A	100,000
<i>Total U.S. Department of Health and Human Services</i>			<u>12,250,139</u>
<i>U.S. Department of Homeland Security</i>			
Pass-Through Programs From The California Governor's Office of Emergency Services:			
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-09-CA-4482-PW-00626(1293)	2,641,961
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-09-CA-4482-PW-01246(1277)	1,056,024
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-09-CA-4482-PW-01302(1220)	843,047
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-09-CA-4482-PW-01752(1188)	427,840
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-09-CA-4482-PW-02281(1411)	674,497
<i>Total U.S. Department of Homeland Security</i>			<u>5,643,369</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 17,893,508</u>

Salinas Valley Memorial Healthcare System
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Salinas Valley Memorial Healthcare System (“Salinas Valley Health” or “SVH”), under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (“OMB”) Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of SVH, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of SVH. The Schedule includes expenditures of federal awards from Salinas Valley Health (Taxpayer Identification Number 94-6004020), Salinas Valley Medical Clinic (Taxpayer Identification Number 35-2401992), and Doctors on Duty Medical Group, Inc. (Taxpayer Identification Number 77-0439213).

Salinas Valley Health received Provider Relief Funds from the Department of Health and Human Services during the year ended June 30, 2022; however, in accordance with the *2023 OMB Compliance Supplement*, Period 4 (received between July 1, 2021, and December 31, 2021) and Period 5 (received between January 1, 2022, and June 30, 2022), Provider Relief Fund payments are reflected in the attached Schedule for the year ended June 30, 2023. For Provider Relief Funds, Salinas Valley Health expended \$12,150,139 in federal awards, which is included in Salinas Valley Health’s schedule of expenditures of federal awards during the year ended June 30, 2023.

The Schedule includes \$5,643,369 of expenditures for U.S. Department of Homeland Security Disaster Grants – Public Assistance (Presidentially Declared Disasters) Assistance Listing No. 97.036. These awards were approved during the year ended June 30, 2023, and relate to expenditures that were incurred during the years ended June 30, 2022, 2021, and 2020.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. SVH has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Subrecipients

SVH did not provide federal awards to subrecipients during the year ended June 30, 2023.

Required Supplementary Information

DRAFT

Salinas Valley Memorial Healthcare System
Supplementary Pension and Post Employment Benefit Information
June 30, 2023 and 2022

Defined Benefit Pension Plan

The following table summarizes the number of total plan participants at June 30:

	2023	2022
Number of active members	1,265	1,261
Number of frozen active participants	236	223
Number of retired members and beneficiaries	794	744
Number of vested terminated members	438	379
	2,733	2,607

The following table summarizes the funding status of the defined benefit pension plan at various measurement dates, in thousands:

Year Ended	Actuarially Determined Contribution	Actual Employer Contribution	Contribution (Excess) Deficiency	Covered Payroll	Contribution as a Percentage of Covered Payroll
December 31, 2008	\$ 8,756	\$ 10,766	\$ (2,010)	\$ 107,149	10.05%
December 31, 2009	\$ 13,096	\$ 13,096	\$ -	\$ 119,940	10.92%
December 31, 2010	\$ 12,570	\$ 12,570	\$ -	\$ 129,273	9.72%
December 31, 2011	\$ 11,226	\$ 11,226	\$ -	\$ 96,774	11.60%
December 31, 2012	\$ 11,648	\$ 11,648	\$ -	\$ 96,172	12.11%
December 31, 2013	\$ 11,308	\$ 11,311	\$ (3)	\$ 94,394	11.98%
December 31, 2014	\$ 10,799	\$ 10,799	\$ -	\$ 97,719	11.05%
December 31, 2015	\$ 12,147	\$ 17,190	\$ (5,043)	\$ 121,074	14.20%
December 31, 2016	\$ 11,970	\$ 16,970	\$ (5,000)	\$ 130,810	12.97%
December 31, 2017	\$ 12,883	\$ 19,883	\$ (7,000)	\$ 108,395	18.34%
December 31, 2018	\$ 11,927	\$ 21,927	\$ (10,000)	\$ 112,353	19.52%
December 31, 2019	\$ 11,809	\$ 26,809	\$ (15,000)	\$ 119,261	22.48%
December 31, 2020	\$ 18,766	\$ 23,766	\$ (5,000)	\$ 127,771	18.60%
December 31, 2021	\$ 13,127	\$ 23,127	\$ (10,000)	\$ 138,820	16.66%
December 31, 2022	\$ 10,158	\$ 61,580	\$ (51,422)	\$ 142,050	43.35%

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*

The Board of Directors
Salinas Valley Memorial Healthcare System

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the California Code of Regulations, Title 2, Section 1131.2, State Controller's Minimum Audit Requirements for California Special Systems; and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Salinas Valley Memorial Healthcare System (the "System"), which comprise the consolidated statements of the business-type activities and the aggregate remaining fund information of Salinas Valley Memorial Healthcare System as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Salinas Valley Memorial Healthcare System's consolidated financial statements as listed in the table of contents, and the related notes to the consolidated financial statements, and have issued our report thereon dated November XX, 2023.

Report on Internal Control Over Financial Reporting

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System’s consolidated 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 System’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 System’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Francisco, California
November XX, 2023



Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

The Board of Directors
Salinas Valley Memorial Healthcare System

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Salinas Valley Memorial Healthcare System's compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of Salinas Valley Memorial Healthcare System's major federal programs for the year ended June 30, 2023. Salinas Valley Memorial Healthcare System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Salinas Valley Memorial Healthcare System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Salinas Valley Memorial Healthcare System and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for its major federal program. Our audit does not provide a legal determination of Salinas Valley Memorial Healthcare System's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Salinas Valley Memorial Healthcare System's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Salinas Valley Memorial Healthcare System's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Salinas Valley Memorial Healthcare System's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Salinas Valley Memorial Healthcare System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Salinas Valley Memorial Healthcare System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Salinas Valley Memorial Healthcare System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Francisco, California

November XX, 2023

**Salinas Valley Memorial Healthcare System
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2023**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of Major Federal Programs and Type of Auditor’s Report Issued on Compliance for the Major Federal Programs:

<i>Federal Assistance Listing Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for the Major Federal Program</i>
93.498	<i>COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution</i>	<i>Unmodified</i>
97.036	<i>COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)</i>	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

No findings noted.

Salinas Valley Memorial Healthcare System

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2023

Name of Auditee: Salinas Valley Memorial Healthcare System
Period Covered by Audit: April 2020 through June 30, 2020
Name of Audit Firm: Moss Adams LLP



Finding 2021-001 REPORTING: SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE

Criteria – The System should have appropriate internal controls in place to ensure that reporting requirements are met and amounts utilized in reports are calculated accurately and in accordance with 45 CFR 75.342.

Condition/Context – The Period 1 Provider Relief Fund (PRF) report submitted for Salinas Valley Memorial Healthcare System (SVMHS) was tested. The System elected to use Lost Revenues Option 1 to report lost revenue based on quarterly actuals. Amounts reported as quarterly net patient service revenue were not reconciled properly to supporting documents, resulting in an incorrectly reported total lost revenue. Further, during our testing of allowable cost, an error was discovered in the Period 1 PRF report submitted on September 30, 2021 for Salinas Valley Medical Clinic (SVMC). The error resulted in an overstatement of \$231,000 in expenditures. The overstatement had no impact in the amounts retained by SVMC as there is sufficient unreimbursed expenses reported by SVMC.

Effect – Errors were made in the quarterly reporting of Total Revenue/Net Charges from Patient Care for SVMHS, as well as Other PRF expenses reporting for SVMC. However, we note there was no impact to total funding received or retained by SVMC and the System overall due to the error. Independent calculations of the lost revenue utilizing the amounts that should have been reported were performed and will be accurately reported on the next PRF reporting. Based on these calculations, lost revenue exceeded total PRF amounts received in period 1. The total amount of funding recognized on the basis of lost revenue for period 1 was accurate and the amount reported per the Schedule of Expenditures for Federal Awards (“SEFA”) was also accurate. Independent testing was also performed on the corrected Other PRF expenses for SVMC, resulting in no change in amounts retained by SVMC.

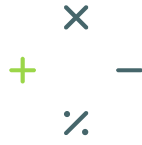
Cause – PRF guidance was not thoroughly reviewed and researched.

Recommendation – Policies and procedures over federal grant reporting should be modified to ensure reports are prepared using complete and accurate information. Review controls should be in place by someone other than the preparer of the report to ensure information is accurate prior to submission of the report.

Status – Fully remediated.

Augustine Lopez

Augustine Lopez
Chief Financial Officer



DRAFT

Communications with the Board of Directors

Salinas Valley Memorial Healthcare System

June 30, 2023



Communications with the Board of Directors

The Board of Directors
Salinas Valley Memorial Healthcare System

We have audited the consolidated financial statements of Salinas Valley Memorial Healthcare System (the “System”) its aggregate discretely presented component units, the Salinas Valley Memorial Healthcare District Employees Pension Plan, as of and for the year ended June 30, 2023 and have issued our report thereon dated **November XX, 2023**. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated January 13, 2023, we are responsible for forming and expressing an opinion about whether the consolidated financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. We will also report on whether the consolidating statement of net position, consolidating statement of revenues, expenses, and changes in net position, and supplemental pension and postretirement benefit information, presented as supplementary information, are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), 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 Systems. As part of an audit conducted in accordance with the standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control over financial reporting. Accordingly, we considered the System’s internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the consolidated financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 13, 2023.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 2 to the consolidated financial statements. In 2023, the System adopted Governmental Accounting Standards Board (“GASB”) Statement No. 96, *Subscription Based IT Arrangements*. See Note 14 for impact of adoption. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2023. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

- Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. We evaluated the key factors and assumptions used to develop the estimated net realizable amounts and determined that it is reasonable in relation to the consolidated financial statements taken as a whole.
- The System provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management’s estimate of amounts that ultimately may be uncollectible. We evaluated the key factors and assumptions used to develop the provision for uncollectible accounts and determined that it is reasonable in relation to the consolidated financial statements taken as a whole.

- Management's estimate of the fair market values of investments in the absence of readily-determinable fair values is based on information provided by the fund managers. We have gained an understanding of management's estimate methodology and examined the documentation supporting this methodology. We evaluated the key factors and assumptions used to develop the fair market value of investments. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- The System is self-insured for workers' compensation benefits for employees. An actuarial estimate is accrued based on an expected, undiscounted estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- The System provides eligible employees with health benefits through a self-insured program. The liability for claims arising from this program is estimated based upon historical experience and trending. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- The useful lives of capital assets have been estimated based on the intended use and are within accounting principles generally accepted in the United States of America. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimate of the net pension (asset) liability is actuarially determined using assumptions on the long-term rate of return on pension plan assets, the discount rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimated liability for post-retirement medical benefits is actuarially determined using assumptions on the long-term rate of return on plan assets, the discount rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimates of the discount rate, useful lives, lease terms related to the System's operating lease right of use assets, lease liabilities, lease receivable, and deferred inflows of resources - leases. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the System's consolidated financial statements taken as a whole.
- Management's estimates of the discount rate, useful lives, subscription terms related to the System's subscription assets and subscription liabilities. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the System's consolidated financial statements taken as a whole.

Actual results could differ from these estimates. In accordance with accounting principles generally accepted in the United States of America, any change in these estimates is reflected in the consolidated financial statements in the year of change.

Financial Statement Disclosures

The disclosures in the consolidated financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the consolidated financial statements were disclosures relating to significant concentrations of net patient accounts receivable and revenue, investments in affiliates, fair value of investments, self-insurance liabilities and net pension liability, leases, and subscription-based IT arrangements.

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of the System's consolidated financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the System's consolidated financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Circumstances that Affect the Form and Content of the Auditor's Report

There may be circumstances in which we would consider it necessary to include additional information in the auditor's report in accordance with auditing standards generally accepted in the United States of America (GAAS) and the California Code of Regulations, Title 2 Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Systems. There were no circumstances that affected the form and content of the auditor's report.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements the effects of which, as determined by management, are material, both individually and in the aggregate, to the consolidated financial statements as a whole.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **November XX, 2023**.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the System’s consolidated financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Board of Directors and management of the System, and is not intended to be, and should not be, used by anyone other than these specified parties.

San Francisco, California
November XX, 2023

Issued Report



Report of Independent Auditors

- Financial statements of Salinas Valley Memorial Healthcare District Employees Pension Plan for year ended December 31, 2022
- Audit report will be dated following management approval



2

Unmodified Opinion

Financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America

Non-Attest Service

Moss Adams assisted management with drafting the Plan's financial statements and required supplementary information

Pension Financial Highlights



	<u>2020</u>	<u>2021</u>	<u>2022</u>
Total pension liability (a)	\$ 428,243,730	\$ 440,485,078	\$ 458,730,891
Plan fiduciary net position			
Employer contributions	\$ 23,765,862	\$ 23,126,725	\$ 61,579,392
Member contributions	1,975,665	2,673,070	2,577,706
Net investment income (loss)	43,530,843	47,033,347	(83,884,411)
Administrative expense	(115,720)	(111,880)	(92,272)
Benefit payments	(14,266,188)	(16,352,414)	(18,835,673)
Net change in plan fiduciary net position	54,890,462	56,368,848	(38,655,258)
Plan fiduciary net position			
Beginning of year	331,115,464	386,005,926	442,374,774
End of year (b)	\$ 386,005,926	\$ 442,374,774	\$ 403,719,516
System net pension liability (asset) (a) - (b)	\$ 42,237,804	\$ (1,889,696)	\$ 55,011,375
Funded status (GASB basis)	90.1%	100.4%	88.0%



Significant Audit Areas

- Internal Controls
- Investments
- Contributions (employer and member)
- Benefit payments
- Participant data and eligibility
- Actuarial valuation and assumptions
- Expenses
- Financial reporting



4



Required Communications

- Memo will be issued with required audit communications
- Representations requested and received from management
- No proposed adjusting entries or uncorrected misstatements noted
- No significant new accounting pronouncements applied during 2022 that affected the Plan's reporting
- Consideration of fraud in a financial statement audit
 - Procedures performed included journal entry testing and interviews of personnel
- Moss Adams is independent with respect to the Plan and its sponsoring employer





THANK
YOU

- Audit performed within the scope and timeline discussed during planning
- Management, staff, and the Plan's outside service providers were helpful, candid and open in response to audit requests and discussion points



6



Kory Hoggan
Engagement Partner
kory.hoggan@mossadams.com
(505) 878-7214



Jason Lu
Assurance Senior Manager
jason.lu@mossadams.com
(913) 948-8186

Report of Independent Auditors and
Financial Statements with
Required Supplementary Information

**Salinas Valley Memorial Healthcare District
Employees Pension Plan**

December 31, 2022 and 2021

Table of Contents

	PAGE
Report of Independent Auditors	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Fiduciary Net Position	8
Statements of Changes in Fiduciary Net Position	9
Notes to Financial Statements	10
Required Supplementary Information	
Schedules of Changes in Employer Net Pension Liability (Asset) and Related Ratios	20
Schedules of Employer Contributions	21
Schedules of Investment Returns	22

Salinas Valley Memorial Healthcare District Employees Pension Plan Management's Discussion and Analysis

This section of Salinas Valley Memorial Healthcare District Employees Pension Plan's (the Plan's) annual financial report presents the management discussion and analysis of the Plan's financial performance as of and for the years ended December 31, 2022 and 2021. This section also includes selected comparative information as of and for the year ended December 31, 2020. It should be read in conjunction with the Plan's annual audited financial statements, which follow this section.

Overview – The Plan was established in November 1966 by the Salinas Valley Memorial Healthcare District (now known as the Salinas Valley Memorial Healthcare System or the System) and has been amended from time to time since that date, as further described below. The Plan provides retirement, disability, and death benefits to permanent employees of the System with union representation based on the employee's years of service, age, and annual compensation during covered employment.

Plan background – The Plan was amended effective January 1, 2004 to provide that the benefit formula be equal to 2.45% of the participant's earnings in a plan year. The benefit formula was previously 2.25% of the participant's earnings in a plan year (for plan years 2000 through 2003).

Participation in the Plan was frozen effective March 31, 2011 for nonunion employees. These employees are entitled to benefits earned before that date but do not accrue further benefits under the Plan.

The Plan was amended effective January 1, 2013 to comply with the applicable provisions of the California Public Employees' Pension Reform Act of 2013 (PEPRA). These provisions include limitations on pensionable compensation and retirement benefits and contribution provisions, including the establishment of participant contributions, for new participants who are hired on or after January 1, 2013 and meet the eligibility and vesting requirements of the Plan.

The Plan was amended and restated effective January 1, 2016 to update the Plan for legislative changes according to PEPRA and to remove the three-year service requirement to participate in the Plan for eligible employees.

Plan documents contain a more detailed description of the Plan's provisions and should be referred to for a more complete understanding of the terms of the Plan. Copies of the appropriate documents are available through the administrative offices of the System.

Financial highlights – During the year ended December 31, 2022, the net position held in trust for pension benefits decreased by approximately 9%. Employer contributions were \$61.6 million in 2022 compared to \$23.1 million in 2021. Benefit payments were \$19.0 million during 2022 compared to \$16.4 million during 2021. Net investment loss was \$83.7 million during 2022 compared to a net investment income of \$47.0 million during 2021.

Financial analysis – Total contributions have exceeded the actuarially determined contribution amounts since 2015, due to decisions made by the System's Board of Directors to fund the Plan at amounts above actuarially determined contributions. During the year ended December 31, 2022, the System's Board of Directors approved and funded employer contributions totaling \$61,579,392 to the Plan.

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Management's Discussion and Analysis**

Actuarial measurement – The actuarial cost method used to attribute the actuarial present value of projected benefit payments of each plan member is the entry age cost method. Under the entry age cost method, the actuarial present value of the projected benefits for each individual included in the actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is the actuarial accrued liability.

The System's net pension liability (asset) is calculated as the total pension liability, defined as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service, less the Plan's fiduciary net position. A comparison of the components of the net position liability (asset) as of December 31, 2022, 2021, and 2020 are as follows:

	December 31,		
	2022	2021	2020
Total pension liability	\$ 458,730,891	\$ 440,485,078	\$ 428,243,730
Plan fiduciary net position	(403,719,516)	(442,374,774)	(386,005,926)
System's net pension liability (asset)	\$ 55,011,375	\$ (1,889,696)	\$ 42,237,804
System's fiduciary net position as a percentage of total pension liability	88.01%	100.43%	90.14%

Overview of the financial statements – The financial statements consist of three parts: management's discussion and analysis (this section), the basic financial statements together with the related notes, and required supplementary information, as mandated by certain pronouncements of the Governmental Accounting Standards Board (GASB).

The basic financial statements present information about the Plan's fiduciary net position and changes in fiduciary net position for the respective years. The basic financial statements also include notes to explain some of the information in the financial statements and to provide more details. The notes are followed by a section of required supplementary information that displays additional detail information not in the basic financial statements, but which is required by the pronouncements of the GASB and relate to funding progress and required contributions.

The statement of fiduciary net position displays the assets and liabilities and resulting net position of the Plan as of the end of the year. All assets are valued at fair value.

The following are abbreviated statements of fiduciary net position (in thousands):

	December 31,		
	2022	2021	2020
Cash and investments	\$ 403,720	\$ 442,375	\$ 386,006

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Management's Discussion and Analysis**

During the years ended December 31, 2022, and 2021, the Plan's fiduciary net position decreased by 9% and increased by 15%, respectively. The Plan's policies allow investments consisting of fixed income securities, equity securities, and money market funds. The Plan's investments are held in a portfolio of registered investment companies (mutual funds).

The statement of changes in fiduciary net position reflects the employer contributions and investment return, net of investment expenses, less benefits paid. Changes in fiduciary net position are summarized as follows (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Investment (loss) income, net	\$ (83,746)	\$ 47,033	\$ 43,531
Employer contributions	61,579	23,127	23,766
Member contributions	2,578	2,673	1,976
Benefit payments to members and beneficiaries	(18,961)	(16,352)	(14,266)
Administrative expenses	(106)	(112)	(116)
 Change in fiduciary net position	 <u>\$ (38,656)</u>	 <u>\$ 56,369</u>	 <u>\$ 54,891</u>

The change in fiduciary net position during the years ended December 31, 2022, 2021, and 2020 is due primarily to the investment (loss) income from the performance of equity markets during each year. Benefit payments to members and beneficiaries continue to increase each year due to the increased number of retirees and beneficiaries receiving benefits.

Financial Statements

DRAFT

**Salinas Valley Memorial Healthcare District
 Employees Pension Plan
 Statements of Fiduciary Net Position
 December 31, 2022 and 2021**

	2022	2021
ASSETS		
Investments, at fair value		
Mutual funds	\$ 403,719,516	\$ 442,374,774
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	\$ 403,719,516	\$ 442,374,774

DRAFT

See accompanying notes to these financial statements.

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2022 and 2021**

	2022	2021
INVESTMENT (LOSS) INCOME		
Net (depreciation) appreciation in fair value of investments	\$ (93,981,045)	\$ 25,857,851
Dividends	10,235,226	21,175,496
Net investment (loss) income	<u>(83,745,819)</u>	<u>47,033,347</u>
CONTRIBUTIONS		
Employer	61,579,392	23,126,725
Members	2,577,706	2,673,070
Total contributions	<u>64,157,098</u>	<u>25,799,795</u>
DEDUCTIONS		
Benefit payments	18,960,982	16,352,414
Administrative expenses	105,555	111,880
Total deductions	<u>19,066,537</u>	<u>16,464,294</u>
CHANGE IN NET POSITION	(38,655,258)	56,368,848
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	<u>442,374,774</u>	<u>386,005,926</u>
End of the year	<u>\$ 403,719,516</u>	<u>\$ 442,374,774</u>

See accompanying notes to these financial statements.

Salinas Valley Memorial Healthcare District Employees Pension Plan Notes to Financial Statements

Note 1 – Description of the Plan

General – The following description of Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan’s provisions.

The Plan is a single-employer noncontributory employee retirement system established by Salinas Valley Memorial Healthcare System (the System). The System is a political subdivision that was organized under the provisions of the Health and Safety Code of the State of California. Permanent employees of the System with union representation are eligible to participate in the Plan upon the later of their employment commencement date or reaching the age of 21.

The Plan provides retirement, disability, and death benefits based on the employee’s years of service, age, and annual compensation during covered employment. Plan provisions and all other requirements are established by the System’s five-member Board of Directors (the Board), which has been elected by the registered voters in the District.

Effective March 31, 2011, participation in the Plan for nonunion employees was frozen. Nonunion employees are entitled to benefits earned before March 31, 2011, but do not accrue further benefits under the Plan.

Effective January 1, 2013, the Plan was amended to adopt the applicable provisions of the California Public Employees’ Pension Reform Act of 2013 (PEPRA).

Membership in the Plan consists of the following:

	December 31,	
	2022	2021
Active members		
Number of active members under and over the normal retirement age	1,265	1,261
Nonactive members and other beneficiaries receiving benefits		
Number of retirees or beneficiaries	794	744
Number terminated with vested benefits	438	379
Inactive members	236	223
Total	2,733	2,607

Contributions – The Plan directs the System to make contributions based on actuarially determined contribution amounts. The System reserves the right to suspend or reduce contributions to the Plan at any time, upon appropriate action by the Board. In accordance with PEPRA, certain members are required to make contributions based on a percentage of their eligible compensation to the Plan.

Salinas Valley Memorial Healthcare District Employees Pension Plan Notes to Financial Statements

Benefits – The benefit formula payable to a participant who retires on his or her normal retirement date of age 65 shall be a monthly benefit for the life of the member. The benefit payable to a participant is computed as 2.45% of the participant's earnings during a year of credited service, as defined by the Plan, multiplied by the number of years of credited service for the participant.

In accordance with the provisions of PEPRA, certain participants hired after January 1, 2013 who retire at their normal retirement age of age 65, shall receive a retirement benefit computed as 2.30% of the participant's final annual compensation multiplied by their number of years of service in the Plan.

A participant who has attained age 52 and completed 15 years of service and 5 years of plan participation may elect early retirement on the first day of any month prior to the participant's normal retirement date, with certain defined-benefit reductions. A participant may elect to receive benefits in the form of a single life annuity, alternate annuity option, certain period option, or social security adjustment option, as defined in the plan document. Upon the death of a participant who is currently employed by the System and prior to commencement of payments of benefits under this Plan, death benefits are distributed to the designated beneficiary.

Vesting – Employees are eligible to receive benefits after a minimum of ten years of service. Participants may receive early retirement benefits with 15 years of service.

Plan termination – The System expects to continue the Plan indefinitely but reserves the right to terminate the Plan at any time by appropriate action. In the event of such termination, each affected employee shall become 100% vested in the participant's accrued benefit.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units, using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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 the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial value of assets and actuarial accrued liability at the date of the financial statements. Actual results could differ from those estimates.

Investment valuation – Investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price on the last business day of the plan year. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Salinas Valley Memorial Healthcare District Employees Pension Plan Notes to Financial Statements

Income recognition – Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Net (depreciation) appreciation in fair value of investments consists of both the realized gains and losses and unrealized appreciation and depreciation of those investments.

Benefit payments – Benefit payments to participants are recorded when paid.

Administrative expenses – The Plan’s administrative expenses are paid either by the Plan or the System, as provided by the plan document. Certain expenses for the general administration of the Plan are paid directly by the System and are excluded from these financial statements. Certain investment related expenses are included in investment (loss) income presented in the accompanying statements of changes in fiduciary net position.

Note 3 – Investments

Investment policy – The Personnel and Pension Committee, appointed by the System’s Board of Directors, is responsible for the oversight of the Plan’s investments and investment policy. The investment policy presents ranges for investment types as follows:

Domestic and international equities	65%
Fixed income securities and cash equivalents	35%

The investment policy specifically prohibits investments in short sales, margin purchases, private placements, derivatives, commodities, and annuities.

Investments – As of December 31, the Plan’s investments are summarized as follows:

	2022		2021	
	Fair Value	%	Fair Value	%
Mutual funds				
Domestic equity	\$ 173,431,007	43%	\$ 186,981,586	40%
Fixed income	121,469,099	30%	137,323,515	32%
International equity	88,364,818	22%	94,269,950	23%
Real estate fund	20,454,592	5%	23,799,723	5%
 Total	 <u>\$ 403,719,516</u>	 <u>100%</u>	 <u>\$ 442,374,774</u>	 <u>100%</u>

Fair value measurements – The Plan uses a framework for measuring fair value that provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Salinas Valley Memorial Healthcare District Employees Pension Plan Notes to Financial Statements

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation technique used for assets measured at fair value. There have been no changes in the techniques used at December 31, 2022 or 2021.

Mutual funds – Shares held in registered investment companies (mutual funds) are valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Plan are deemed to be actively traded. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission.

The following tables disclose the fair value hierarchy of the Plan's assets by level:

	Fair Value Measurements			
	December 31, 2022	Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 282,250,417	\$ 282,250,417	\$ -	\$ -
Fixed income	121,469,099	121,469,099	-	-
Total	\$ 403,719,516	\$ 403,719,516	\$ -	\$ -

	Fair Value Measurements			
	December 31, 2021	Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 305,051,259	\$ 305,051,259	\$ -	\$ -
Fixed income	137,323,515	137,323,515	-	-
Total	\$ 442,374,774	\$ 442,374,774	\$ -	\$ -

Salinas Valley Memorial Healthcare District Employees Pension Plan Notes to Financial Statements

Money-weighted rate of return – During the years ended December 31, 2022 and 2021, the annual money-weighted rate of return on the Plan's investments, net of investment expenses, was (18.04)% and 12.01%, respectively. The money-weighted rate of return expresses investment performance, net of investment fees, adjusted for the changing amounts actually invested.

Investment risk factors – There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. The Plan manages its investment risk factors by diversifying its portfolio through investments in a group annuity contract that invests in various registered investment companies, and U.S. and international equity securities, which are all readily marketable.

The fixed income portfolio consists of shares held in various registered investment companies (mutual funds) with underlying investments in fixed and variable rate U.S Government and corporate securities. There are no restrictions to the Plan's ability to sell shares in these mutual funds on any given trading date.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and more volatile than those with shorter durations.

The Plan holds fixed income investments in various mutual funds with underlying investments in fixed and variable rate securities. There are no restrictions to the Plan's ability to sell shares in these mutual funds on any given trading date, which mitigates the interest rate risk of the underlying securities.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan held fixed income investments in various mutual funds with underlying investments in fixed and variable rate securities.

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the investment custodian, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2022 and 2021, the Plan's investments are held by third-party safekeeping custodians selected by the Board and registered in the Plan's name. As a result, management believes custodial credit risk is remote.

Concentration of credit risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments with a few individual issuers, thereby exposing the Plan to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. As of December 31, 2022 and 2021, the Plan's investments are entirely held in mutual funds with diversified holdings in underlying investments.

Salinas Valley Memorial Healthcare District
Employees Pension Plan
Notes to Financial Statements

Note 4 – Employer Contributions

Employer contributions are determined by the System’s Board of Directors each year based on the actuarially required contribution amount calculated by the Plan’s independent actuary. The actuarially determined contribution is determined as part of an actuarial valuation on January 1 of each year, using the traditional unit credit actuarial cost method. Actuarially determined contribution amounts were \$10,157,917 and \$13,126,725 for the year ended December 31, 2022 and 2021, respectively, and contributed to the Plan as directed and approved by the Board of Directors. Employer contributions in excess of the actuarially determined contribution amounts totaling \$51,421,475 and \$10,000,000 were also contributed at the direction of the Board of Directors for the years ended December 31, 2022 and 2021, respectively.

Note 5 – System Net Pension Liability (Asset)

The components of the net pension liability (asset) of the System were as follows:

	December 31,	
	2022	2021
Total pension liability	\$ 458,730,891	\$ 440,485,078
Plan fiduciary net position	(403,719,516)	(442,374,774)
System net pension liability (asset)	\$ 55,011,375	\$ (1,889,696)
Plan fiduciary net position as a percentage of total pension liability (funded status)	88.01%	100.43%

Note 6 – Actuarial Methods and Significant Assumptions

The total pension liability was determined as part of actuarial valuations as of December 31, 2022 and 2021, respectively, using actuarial methods and assumptions in accordance with GASB No. 67, *Financial Reporting for Pension Plans*. The total pension liability was calculated using the entry age cost method and PubG-2010 Generational Mortality Tables projected using MP-2021 as of December 31, 2022 and 2021. The actuarial assumptions included (a) 6.50% investment long-term expected rate of return, net of investment expenses and (b) projected salary increases of 3.50% plus merit for Certified Nursing Assistants (CNA) and 3.75% plus merit for National Union of Healthcare Workers (NUHW).

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Notes to Financial Statements**

Long-term expected rate of return – The long-term expected rate of return on the Plan’s investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for a hypothetical investment portfolio allocation of 65% equity and 35% fixed income. These ranges 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 and by adding expected inflation at a long-term inflation rate of 2.25%.

As of December 31, 2022 and 2021, the long-term expected rates of return for each major investment class in the Plan’s portfolio are as follows:

Investment Class	Long-Term Expected Rate of Return
Domestic equity	
U.S. large cap equity	8.0%
U.S. small cap equity	9.0%
International	
Equity	8.0%
Emerging market equity	9.0%
Alternative	
Real estate investment trust	8.0%
Commodities	5.0%
Money market	2.0%
Fixed income	
High yield bonds	6.5%
Core bonds	4.0%
Long-term corporate bonds	6.0%
Short-term bonds	2.5%

Discount rate – As of December 31, 2022 and 2021, the discount rate used to measure the total pension liability was 6.50% based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows, the Plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Notes to Financial Statements**

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the System, calculated using the discount rate of 6.50%, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
System net pension liability	<u>\$ 115,491,223</u>	<u>\$ 55,011,375</u>	<u>\$ 4,567,815</u>

Note 7 – Tax Status

The Internal Revenue Service has determined and informed the System by a letter dated March 21, 2017, that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code (IRC). Management believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC and is not subject to federal income taxes.

Note 8 – Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks (see Note 3). Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position available for benefits.

Plan contributions are made, and the total pension liability is reported based on certain assumptions pertaining to interest rates, inflation rates, and member demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the financial statements.

Required Supplementary Information

DRAFT

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Schedules of Changes in Employer Net Pension (Asset) Liability and Related Ratios**

	Year Ended December 31,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability									
Service cost	\$ 10,507,936	\$ 9,971,347	\$ 9,739,474	\$ 8,353,779	\$ 8,078,739	\$ 7,171,959	\$ 7,005,009	\$ 7,743,929	\$ 6,982,137
Interest on total pension liability	28,712,023	27,964,724	26,944,092	25,007,386	24,405,221	22,569,994	21,000,849	19,178,200	18,169,063
Change of benefit terms	-	-	(201,797)	-	-	-	-	-	-
Difference between expected and actual experience	(2,138,473)	4,182,887	(3,872,216)	(8,841,924)	(3,353,687)	(3,076,492)	4,487,813	(280,070)	(4,074,023)
Changes in actuarial assumptions	-	(13,644,957)	(1,835,817)	36,231,315	14,767,302	11,277,838	2,602,234	(1,465,873)	15,352,227
Benefit payments	(18,835,673)	(16,232,653)	(14,266,188)	(12,525,484)	(11,578,811)	(10,404,996)	(8,726,267)	(7,762,380)	(7,344,187)
Net change in total pension liability	18,245,813	12,241,348	16,507,548	48,225,072	32,318,764	27,538,303	26,369,638	17,413,806	29,085,217
Total pension liability									
Beginning of year	440,485,078	428,243,730	411,736,182	363,511,110	331,192,346	303,654,043	277,284,405	259,870,599	230,785,382
End of year (a)	\$ 458,730,891	\$ 440,485,078	\$ 428,243,730	\$ 411,736,182	\$ 363,511,110	\$ 331,192,346	\$ 303,654,043	\$ 277,284,405	\$ 259,870,599
Plan fiduciary net position									
Employer contributions	\$ 61,579,392	\$ 23,126,725	\$ 23,765,862	\$ 26,808,785	\$ 21,927,309	\$ 19,883,437	\$ 16,938,956	\$ 17,189,514	\$ 10,798,666
Member contributions	2,577,706	2,673,070	1,975,665	1,593,730	1,209,498	840,013	474,659	-	-
Net investment income (loss)	(83,884,411)	47,033,347	43,530,843	52,346,352	(13,802,482)	32,509,516	8,198,171	1,301,163	14,217,051
Administrative expenses	(92,272)	(111,880)	(115,720)	(115,586)	(112,397)	(109,194)	(64,788)	-	-
Benefit payments	(18,835,673)	(16,352,414)	(14,266,188)	(12,525,484)	(11,578,811)	(10,404,996)	(8,726,267)	(7,762,380)	(7,344,187)
Net change in plan fiduciary net position	(38,655,258)	56,368,848	54,890,462	68,107,797	(2,356,883)	42,718,776	16,820,731	10,728,297	17,671,530
Plan fiduciary net position									
Beginning of year	442,374,774	386,005,926	331,115,464	263,007,667	265,364,550	222,645,774	205,825,043	195,096,746	177,425,216
End of year (b)	\$ 403,719,516	\$ 442,374,774	\$ 386,005,926	\$ 331,115,464	\$ 263,007,667	\$ 265,364,550	\$ 222,645,774	\$ 205,825,043	\$ 195,096,746
Employer net pension (asset) liability (a) - (b)	\$ 55,011,375	\$ (1,889,696)	\$ 42,237,804	\$ 80,620,718	\$ 100,503,443	\$ 65,827,796	\$ 81,008,269	\$ 71,459,362	\$ 64,773,853
Discount rate	6.5%	6.5%	6.5%	7.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Plan fiduciary net position as percentage of total pension liability	88.01%	100.43%	90.14%	80.42%	72.35%	80.12%	73.32%	74.23%	75.07%
Covered payroll	\$ 142,049,836	\$ 138,819,740	\$ 127,771,097	\$ 119,260,723	\$ 112,353,126	\$ 108,395,254	\$ 95,639,978	\$ 92,759,619	\$ 97,718,804
Net pension liability as percentage of covered payroll	38.73%	-1.36%	33.06%	67.60%	89.45%	60.73%	84.70%	77.04%	66.29%

Notes to schedule

Changes in actuarial assumptions with significant impact on the total pension liability include discount rate changes and the following:

- 1) For 2018, the salary scale changed from 4.0% to 3.5% plus merit (CNA) and 3.75% plus merit (NUHW).
- 2) For 2017, the plan was amended for legislative changes according to PEPRA and to remove the three-year service requirement to participate for eligible employees.
- 3) For 2014, the actuarial cost method changed from Traditional Unit Credit to Entry Age Normal.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full ten-year trend is compiled, the Plan will present information for those years for which information is available.

Salinas Valley Memorial Healthcare District Employees Pension Plan Schedules of Employer Contributions

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Excess	Covered Payroll	Contribution as a % of Covered Payroll
2022	\$ 10,157,917	\$ 61,579,392	\$ 51,421,475	\$ 142,049,836	43.35%
2021	13,126,725	23,126,725	10,000,000	138,819,740	16.66%
2020	18,765,859	23,765,862	5,000,003	127,771,097	18.60%
2019	11,808,783	26,808,785	15,000,002	119,260,723	22.48%
2018	11,927,309	21,927,309	10,000,000	112,353,126	19.52%
2017	12,883,435	19,883,437	7,000,002	108,395,254	18.34%
2016	11,970,458	16,938,956	4,968,498	95,639,978	17.71%
2015	12,146,278	17,189,514	5,043,236	92,759,619	18.53%
2014	10,798,666	10,798,666	-	97,718,804	11.05%

Notes to schedule

Valuation date	Actuarially determined contributions are calculated as of January 1, the first day of the fiscal year in which the contributions are reported.
Methods and assumptions used	
Actuarial cost method	Entry Age
Inflation	2.25%
Salary increases	2015 - 2017: 3.75% (NUHW) and 4.00% (CNA), including inflation 3.75% plus merit increases (NUHW) and 4.00% plus merit increases (CNA) 2018 - 2022: 3.75% (NUHW) and 3.50%(CNA), including inflation 3.75% plus merit increases (NUHW) and 3.50% plus merit increases (CNA)
Investment rate of return	2014 - 2017: 7.50%, net of investment expense, including inflation 2018: 7.00%, net of investment expense, including inflation 2019 - 2022: 6.50%, net of investment expense, including inflation
Retirement age	
Normal retirement	65
Early retirement	50 and 15 years of vesting service
Mortality	2015 - 2017: RP-2000 Mortality Table for Males and Females, projected to 2033 2018: RP-2014 Mortality Table for Males and Females, projected to 2033 2019: PubG-2010 Generational Mortality Tables for Males and Females, projected using MP-2019 2020: PubG-2010 Generational Mortality Tables for Males and Females, projected using MP-2020 2021 - 2022: PubG-2010 Generational Mortality Tables for Males and Females, project using MP-2021

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, the Plan will present information for those years for which information is available.

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Schedules of Investment Returns**

	Year Ended December 31,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	-18.04%	12.01%	12.92%	19.53%	-5.11%	14.22%	3.74%	0.68%	8.17%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, the Plan will present information for those years for which information is available.

DRAFT

DRAFT
Not to be reproduced or relied upon for any purpose

×
+ -
÷

DRAFT

COMMUNICATIONS WITH THE
PERSONNEL AND PENSION COMMITTEE

**SALINAS VALLEY MEMORIAL HEALTHCARE DISTRICT
EMPLOYEES PENSION PLAN**

December 31, 2022



Communications with the Personnel and Pension Committee

The Personnel and Pension Committee
Salinas Valley Memorial Healthcare District Employees Pension Plan

We have audited the financial statements of Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan) as of and for the year ended December 31, 2022, and have issued our report thereon dated **November __, 2023**. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 19, 2022, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we considered the Plan's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the consolidated financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated December 19, 2022, and planning discussions during June 2023.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 2 to the financial statements.

No new accounting policies were adopted and there were no changes in the application of existing policies during 2022. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the long-term expected rate of return on the Plan's investments, which is also used as the discount rate, was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for a hypothetical investment portfolio allocation of 65% equity and 35% fixed income. These ranges 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 and by adding expected inflation. We evaluated the key factors and assumptions used to develop the long-term expected rate of return in determining that it is reasonable in relation to the financial statements as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were:

- Investment valuations and types in Note 3 to the financial statements. The Plan's investment portfolio consists of mutual funds where market valuations are readily available.
- Disclosure of the employer's net pension liability (asset) in Note 5 to the financial statements.
- Actuarial methods and significant assumptions in Note 6 to the financial statements, which describes the significant actuarial methods and assumptions used in the valuation of the Plan. This disclosure provides details of the valuation date, actuarial method, long-term expected rate of return for each investment class in the portfolio, and the discount rate.

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of the Plan's financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the Plan's financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Circumstances that Affect the Form and Content of the Auditor's Report

There may be circumstances in which we would consider it necessary to include additional information in the auditor's report in accordance with U.S. GAAS. There were no circumstances that affected the form and content of the auditor's report.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **November __, 2023.**

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Personnel and Pension Committee and management of the Plan and is not intended to be and should not be used by anyone other than these specified parties..

Albuquerque, New Mexico

November __, 2023

CLOSED SESSION

*(Report on Items to be
Discussed in Closed Session)*

*RECONVENE OPEN SESSION/
REPORT ON CLOSED SESSION*

ADJOURNMENT