



November 7, 2025

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 HEALTH**¹ will be held **WEDNESDAY, NOVEMBER 12, 2025, AT 12:00 P.M., ADMINISTRATION OFFICE BUILDING, CMO CONFERENCE ROOM, 2nd FLOOR, SALINAS VALLEY HEALTH MEDICAL CENTER, 450 E. ROMIE LANE, SALINAS, CALIFORNIA.**

(Visit [https://www.salinasvalleyhealth.com/~about-us/healthcare-district-information-reports/board-of-directors/board-committee-meetings-virtual-link/](https://www.salinasvalleyhealth.com/~/about-us/healthcare-district-information-reports/board-of-directors/board-committee-meetings-virtual-link/) for Public Access Information).

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

Allen Radner, MD
President/Chief Executive Officer

¹ Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

Committee Voting Members: **Joel Hernandez Laguna**, Chair, **Catherine Carson**, Vice Chair; **Allen Radner, MD**, President/CEO; **Gary Ray**, Chief Legal Officer, and **Alison Wilson, DO**, Medical Staff Chief of Staff.

Advisory Non-Voting Members: Mike Nolan, Community Member, Sanjeev Tandon, Community Member, Administrative Executive Team.

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

**WEDNESDAY, NOVEMBER 12, 2025, 12:00 P.M.
ADMINISTRATION OFFICE BUILDING, CMO CONFERENCE ROOM, 2nd FLOOR**

**Salinas Valley Health Medical Center
450 E. Romie Lane, Salinas, California**

(Visit SalinasValleyHealth.com/virtualboardmeeting for Public 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. Approval of Minutes from the Corporate Compliance and Audit Committee Meeting of June 18, 2025. (HERNANDEZ LAGUNA)

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

4. Review the Scope of Audits and Audit Plans (HUSSAIN/BAKER TILLY/MOSS ADAMS)

- Years Ended 2025 and 2024 Draft Audited Financial Statements for Salinas Valley Memorial Healthcare System.
- Years Ended 2024 and 2023 Draft Audited Financial Statements for the Salinas Valley Memorial Healthcare District Employee's Pension Plan.

5. Closed Session

6. Reconvene Open Session/Report on Closed Session

¹Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

7. Consider Recommendation for Board of Directors Approval of the Years Ended 2025 and 2024
Draft Audited Financial Statements for Salinas Valley Memorial Healthcare System. (HUSSAIN)

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

8. Consider Recommendation for Board of Directors Approval of the Years Ended 2024 and 2023
Draft Audited Financial Statements for the Salinas Valley Memorial Healthcare District
Employee's Pension Plan. (HUSSAIN)

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

9. Adjournment

The Corporate Compliance and Audit Committee meets quarterly. The next meeting is scheduled for **March 18, 2026**.

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 Salinas Valley Health (SVH) Committee packet is available at the Committee Meeting, electronically at [https://www.salinasvalleyhealth.com/~about-us/healthcare-district-information-reports/board-of-directors/meeting-agendas-packets/2025/](https://www.salinasvalleyhealth.com/~/about-us/healthcare-district-information-reports/board-of-directors/meeting-agendas-packets/2025/), and in the SVH Human Resources Department located at 611 Abbott Street, Suite 201, Salinas, California, 93901. All items appearing on the agenda are subject to action by the SVH Board.

Requests for a disability related modification or accommodation, including auxiliary aids or Spanish translation services, in order to attend or participate in-person at a meeting, need to be made to the Board Clerk during regular business hours at 831-759-3050 at least forty-eight (48) hours prior to the posted time for the meeting in order to enable the District to make reasonable accommodations.

¹Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

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

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

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. Review the Scope of Audits and Audit Plans
 - Years Ended 2025 and 2024 Draft Audited Financial Statements for Salinas Valley Memorial Healthcare System.
 - Years Ended 2024 and 2023 Draft Audited Financial Statements for the Salinas Valley Memorial Healthcare District.

ADJOURN TO OPEN SESSION

¹Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

CALL TO ORDER
ROLL CALL

(Chair to call the meeting to order)

PUBLIC COMMENT

DRAFT SALINAS VALLEY HEALTH¹
CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING
COMMITTEE OF THE WHOLE
MEETING MINUTES JUNE 18, 2025

Committee Member Attendance:

Voting Members Present: **Joel Hernandez Laguna**, Chair, **Catherine Carson**, Vice-Chair, **Allen Radner, M.D.**, President/CEO, **Gary Ray**, CLO, and **Rakesh Singh**, Medical Staff Member;

Voting Members Absent: None

Advisory Non-Voting Members Present: Mike Nolan; Via Teleconference: Sanjeev Tandon

Other Board Members Present, Constituting Committee of the Whole: None.

1. CALL TO ORDER/ROLL CALL

A quorum was present and Chair Hernandez Laguna called the meeting to order at 12:02 p.m. at the Downing Resource Center Rooms CEO Conference Room 117.

2. PUBLIC COMMENT

None

3. APPROVAL OF MINUTES FROM THE CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING OF NOVEMBER 11, 2024.

Approve the minutes of the November 11, 2025 Corporate Compliance and Audit Committee meeting. The information was included in the Committee packet.

PUBLIC COMMENT: None

MOTION:

Upon motion by Committee member Gary Ray, second by Committee Vice-Chair Catherine Carson, the minutes of the November 11, 2024 Corporate Compliance and Audit Committee Meeting were approved as presented.

ROLL CALL VOTE:

Ayes: Chair Hernandez Laguna, Vice-Chair Carson, Dr. Radner, Ray, Dr. Singh;

Nays: None;

Abstentions: None;

Absent: None.

Motion Carried

4. REVIEW THE SCOPE OF AUDITS AND AUDIT PLANS

A. SALINAS VALLEY HEALTH'S CONSOLIDATED FINANCIAL STATEMENTS

B. DEFINED BENEFIT PLAN FOR SALINAS VALLEY HEALTH

Scott Cleveland, Interim CFO, Kimberly Sokoloff and Katherine Djiauw of Moss Adams provided a comprehensive overview of the 2025 Scope of Audits and Audit Planning.

The presentation included an overview of the following:

¹Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

- Moss Adams Merger with Baker Tilly and the benefits
- Scope of Services
- Auditor's Responsibility in a Financial Statement Audit
- Significant Risks Identified
- Risks Discussion
- Consideration of Fraud in a Financial Statement Audit
- Audit Timelines (Financial Statement Audit & Pension Plan Audit)
- Audit Deliverables
- Recent Accounting Developments
- Resources

A full report was included in the packet.

COMMITTEE DISCUSSION: Chair Hernandez Laguna asked Moss Adams about the percentage of their client base made up of healthcare entities once the merger with Baker Tilly is complete. He also inquired about current practices to ensure charges are attributed to the correct month and how improper management override of controls might be recognized. Member Tandon asked about how distinctions are made between capital vs. expense, regulatory requirements applicable to SVH, audit result recipients, best practices around CFO transition, and the fees for this audit service. Member Nolan asked about procedure for testing IT security and controls, as well as future expenses on the horizon, such as seismic upgrades.

5. COMPLIANCE PROGRAM REPORT

Gary Ray, Chief Legal Officer, and Natalie James, Director Contracting and Compliance, reported the following:

- Compliance Training for New Employees: Beginning April 2025, a new and improved compliance training was launched for New Employee Orientation (NEO). Goals are streamlining content, focusing on key areas of concern (Ethics Point hotline and identifying/reporting conflicts of interest) and conveying importance and key stakeholders in the compliance process. A sample NEO presentation was presented including focus on the SVH Compliance Program purpose, importance (Why does it matter), conflict of interest and the Ethics Point hotline. New Employee Orientation is attended by all new employees/temps/travelers/etc. and annual education is required by all employees.
- Annual Form 700 Cycle: As a public district hospital, our leadership is required to annually file Form 700, also known as the Statement of Economic Interests. This form is mandated by the California Fair Political Practices Commission (FPPC) and is designed to promote transparency and prevent conflicts of interest by requiring public officials to disclose their financial interests. This includes assets, income, and gifts that could potentially influence their decision-making in their official roles. SVH maintains a 100% filing rate.

A full report was included in the packet.

COMMITTEE DISCUSSION: Robust discussion around Conflict of Interest management and best practices. Vice Chair Carson emphasized the value and ongoing importance of in person New Employee Orientation sessions. Chair Hernandez Laguna asked about the status of the Form 700 program annual filings, which were addressed in the later slides.

6. ADJOURNMENT

There being no other business, the meeting adjourned at 1:05 p.m. The next Corporate Compliance & Audit Committee Meeting is scheduled for **Wednesday, September 17, 2025**.

Joel Hernandez Laguna, Chair
Corporate Compliance and Audit Committee



Salinas Valley Health



2025 Audit Results

Agenda

1. Scope of Services
2. Auditor Opinions & Reports
3. Significant Risks Identified
4. Communication with Those Charged with Governance
5. Consolidated Statements of Net Position
6. Consolidated Operations
7. Other Information

Scope of Services

Relationships between Baker Tilly and Salinas Valley Memorial Healthcare System (Salinas Valley Health):

Annual Audit 	Non-Attest Services 
<ul style="list-style-type: none">• Annual consolidated financial statement audit as of and for the year ended June 30, 2025• Annual Single Audit for the year ended June 30, 2025	<ul style="list-style-type: none">• Assist management with drafting the consolidated financial statements and footnotes as of and for the year ended June 30, 2025• Assist management with drafting the auditee portion of the OMB Data Collection Form for the year ending June 30, 2025



Auditor Opinions & Reports

Auditor Report on the Consolidated Financial Statements

Unmodified Opinion

Consolidated financial statements are presented fairly and in accordance with US generally accepted accounting principles (GAAP)

Emphasis of matter – GASB 101



Other Auditor Reports

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*

- No financial reporting findings
- No compliance findings

Report of Independent Auditors on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

- No control findings
- No compliance findings

2025 Single Audit

- Schedule of Expenditures of Federal Awards for the year ended June 30, 2025 is fairly stated in all material respects in relation to the financial statements as a whole
- One major program was subject to testing this year: FEMA program
- No reportable internal control findings were identified
- No reportable instances of noncompliance were identified
- No questioned costs were required to be reported
- An unmodified opinion is anticipated to be issued as soon as the 2025 OMB Compliance Supplement is released



Significant Risks Identified

During the audit, we identified 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">- Hospital patient revenue analysis & cut-off analysis- Journal entry testing focusing on revenue reversals
Management override of controls	<ul style="list-style-type: none">- Inquiries of accounting and operational personnel- Perform risk assessment procedure- Test of design and operational effectiveness of financial reporting controls- Testing of risk-based manual journal entry selections



Hospital Patient Accounts Receivable – trend analysis

(\$ in 000's)	2025	2024	2023	2022	2021
Net Patient Accounts Receivable	\$ 129,755	\$ 111,334	\$ 85,106	\$ 83,766	\$ 70,975
Subsequent Cash Receipts 2 months after 6/30	\$ 70,232	\$ 60,833	\$ 55,127	\$ 53,349	\$ 55,047
% Collected 2 months after 6/30	54%	55%	65%	64%	66%
Exposure 2 months' collections	\$ 59,523	\$ 50,501	\$ 29,979	\$ 30,417	\$ 15,928
Collected 14 months after 6/30	n/a	\$ 115,005	\$ 86,285	\$ 89,091	\$ 83,550
% Collected 14 months after 6/30	n/a	103%	101%	106%	118%



Communication with Those Charged with Governance

Our Responsibility Under US Generally Accepted Auditing Standards and *Government Auditing Standards*

1

To express our opinion on whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, and in accordance with GAAP. However, our audit doesn't relieve you or management of your responsibilities.

2

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA as well as *Government Auditing Standards* issued by the Comptroller General of the United States, and design the audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement.

3

To consider internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.

4

To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we aren't required to design procedures for the purpose of identifying other matters to communicate to you.



Significant Accounting Policies & Unusual Transactions

The auditor should determine that the audit committee is informed about the initial selection of and changes in significant accounting policies or their application. The auditor should also determine the audit committee is informed about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there's a lack of authoritative guidance or consensus.

OUR COMMENTS

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in the footnotes to the consolidated financial statements. Throughout the course of an audit, we review changes, if any, to significant accounting policies or their application, and the initial selection and implementation of new policies. During fiscal year 2025, the System adopted Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*. See Notes 2 and 17 for impact of adoption. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2025.

We believe management has selected and applied significant accounting policies appropriately and consistent with those of the prior year.



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.

OUR 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 don't materially misstate the consolidated financial statements.

Significant management estimates impacting the consolidated financial statements include the following:

contractual allowances related to net patient service revenue, provision for uncollectible accounts, fair market values of investments, uninsured losses for professional liability, minimum pension liability, workers' compensation liability, post-retirement medical benefits liability, valuation of gift annuities and beneficial interest in charitable remainder unitrusts, useful lives of capital assets, discount rate for leases, useful lives of right of use assets, deferred inflows of resources, probability of accumulated leave being used or settled and the timing of those payments related to calculation of employee sick leave accrual, subscription term of subscription assets, and discount rates used for subscription liabilities.

We deemed them to be reasonable.

Management Judgments & Accounting Estimates

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

OUR 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; The most sensitive disclosures affecting the consolidated financial statements were disclosures relating to significant concentration of net patient accounts receivable, investments and fair value of investments, capital assets, employee benefit plans, post-retirement medical benefits, insurance plans, bonds payable, leases, and subscription-based IT arrangements.

Other Items

- 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

OUR COMMENTS

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

Deficiencies in Internal Control

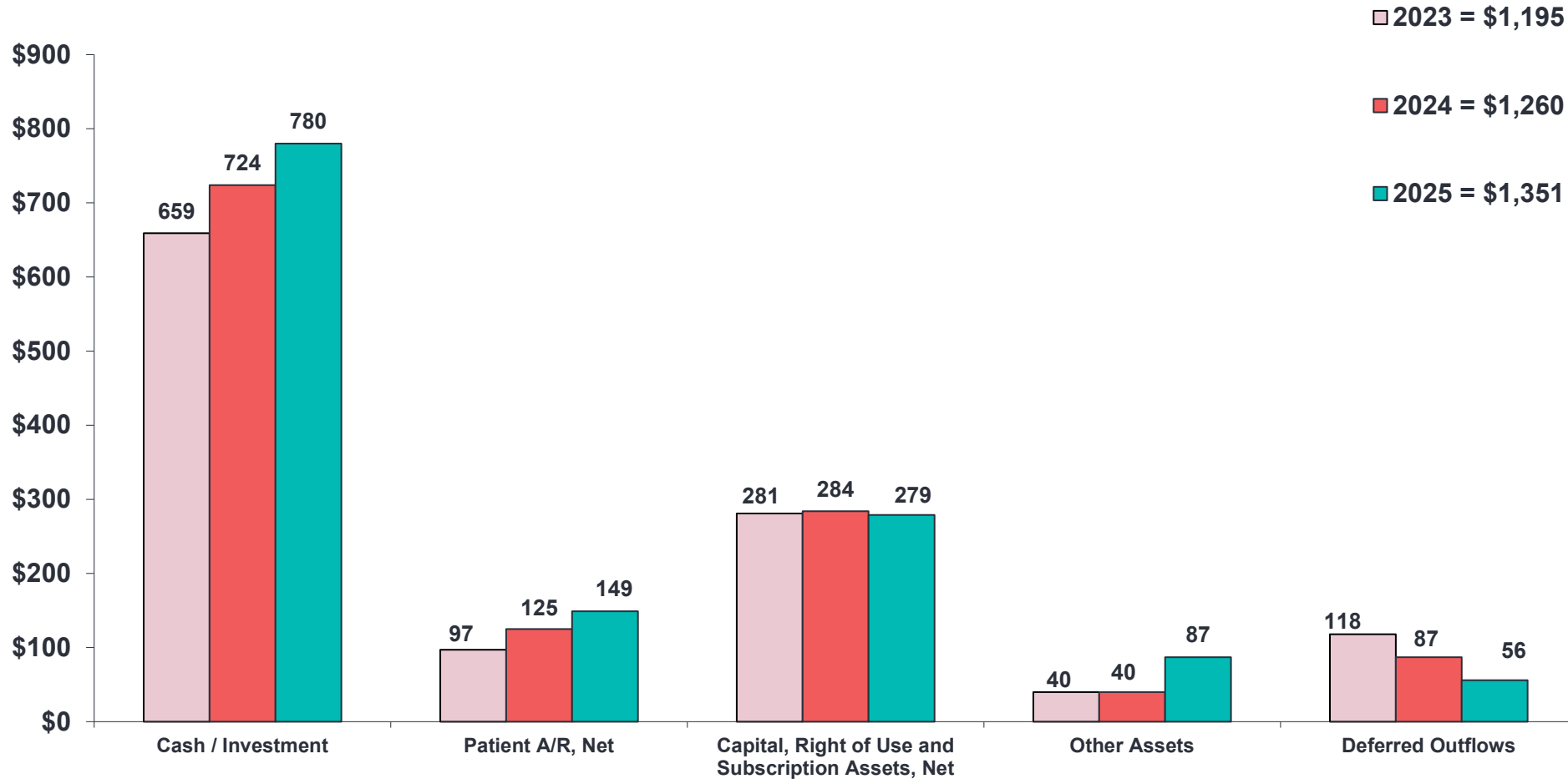
Any material weaknesses and significant deficiencies in the design or operation of internal control that came to the auditor's attention during the audit must be reported to the audit committee.

OUR COMMENTS

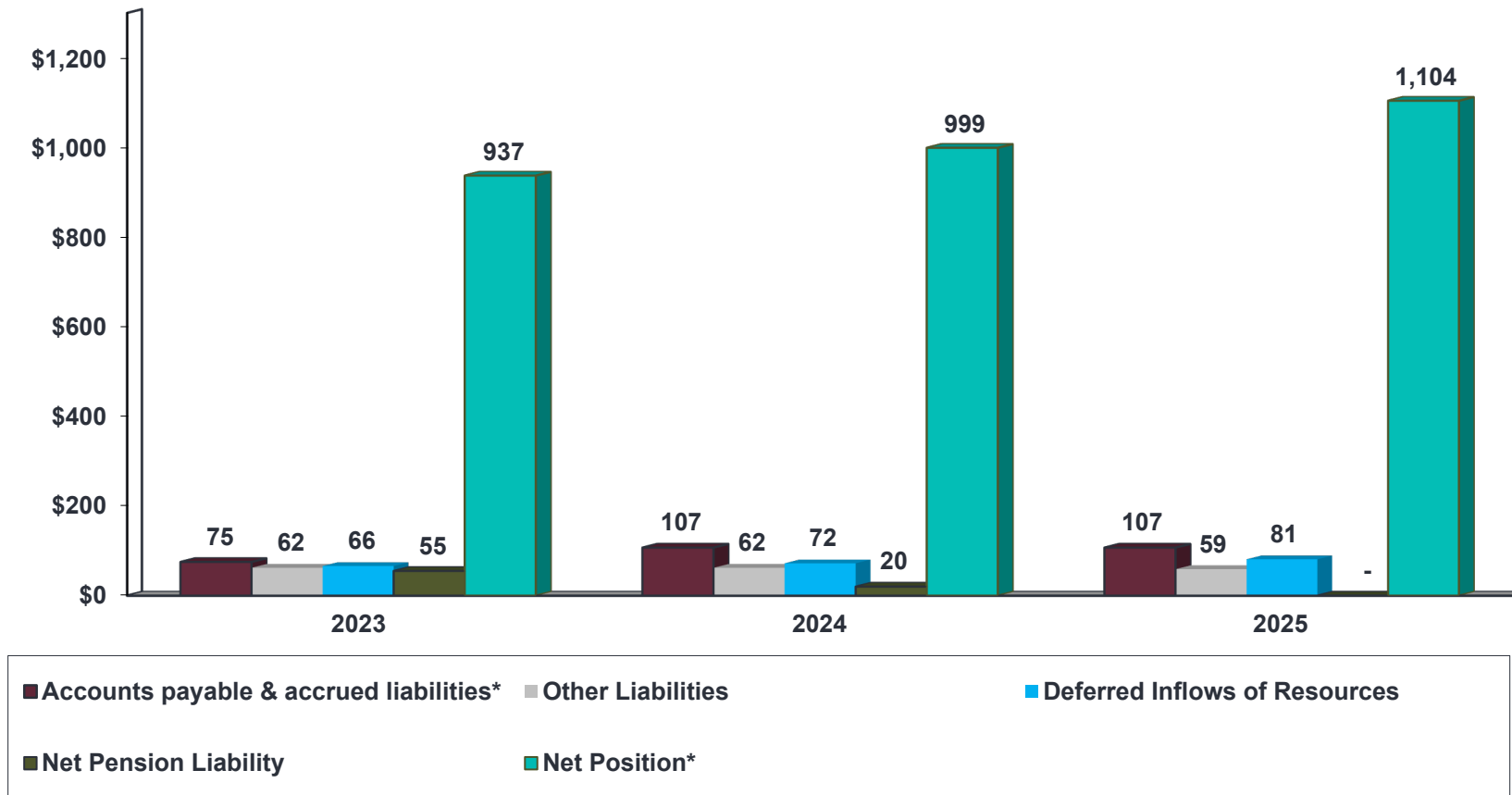
- Material weakness
 - None noted
- Significant deficiencies and non-compliance
 - Nothing to communicate

Consolidated Statements of Net Position

Assets and Deferred Outflows (in millions)



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

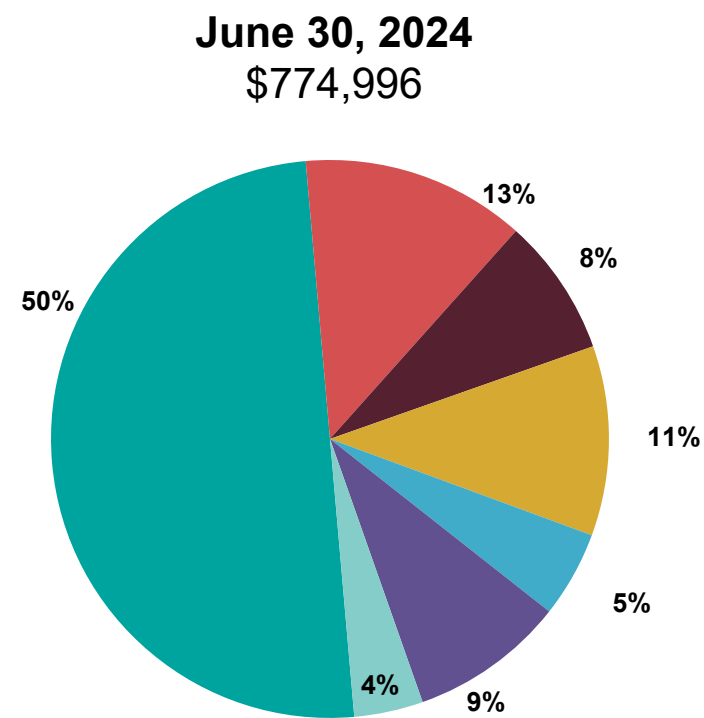
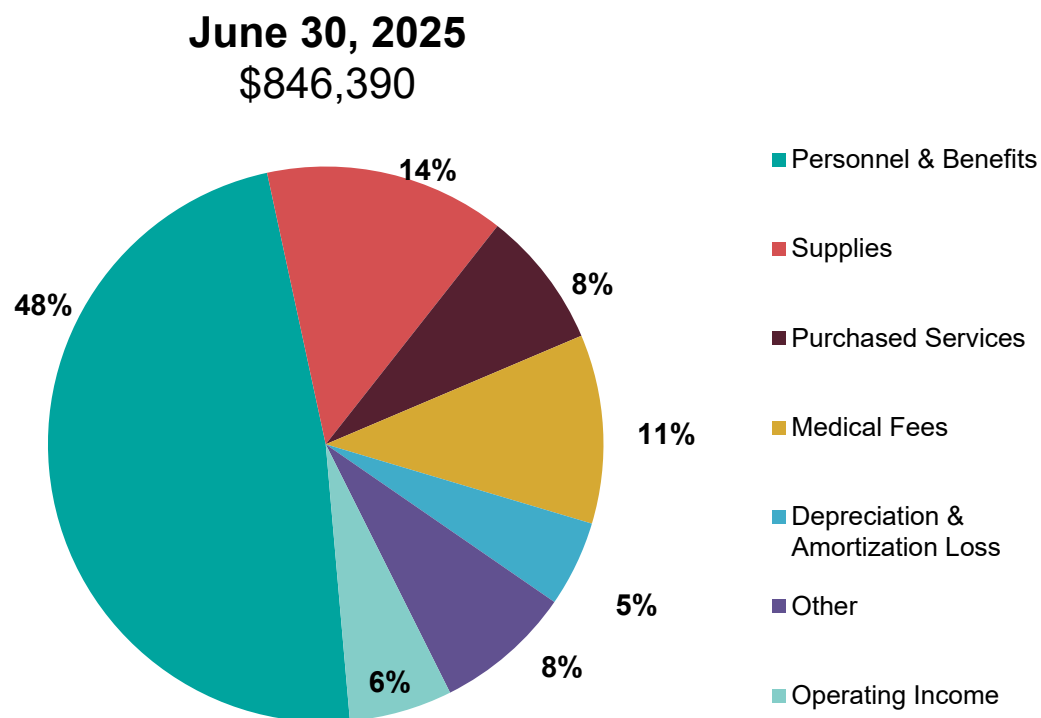


*restated for adoption of GASB 101

Consolidated Operations

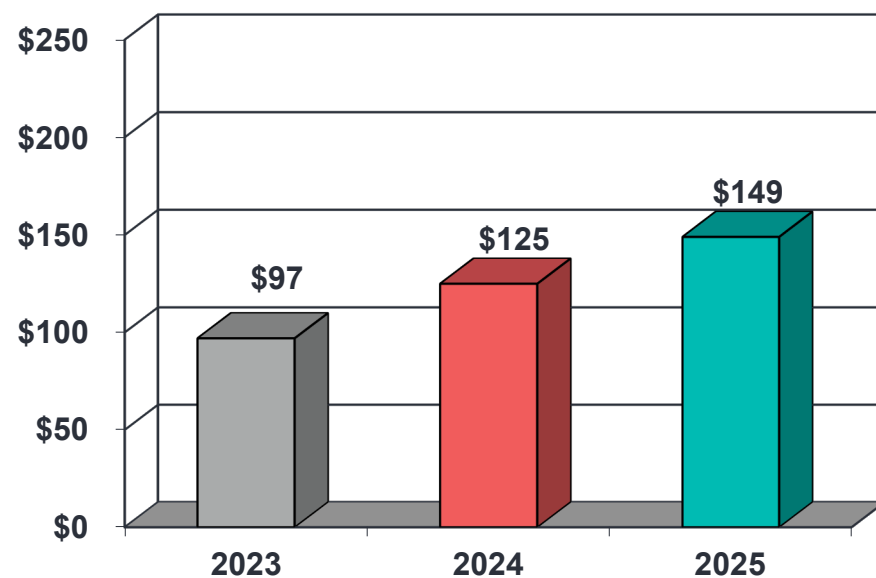
Income Statements Year to Year Comparison

Total Operating Revenues (in thousands)

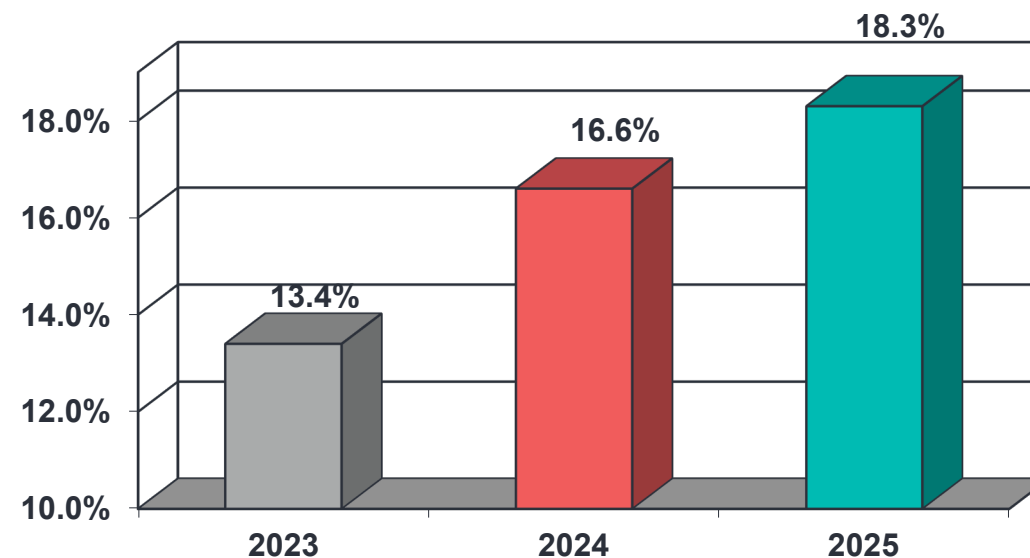


Net Patient Service Accounts Receivable

Dollars (in millions)

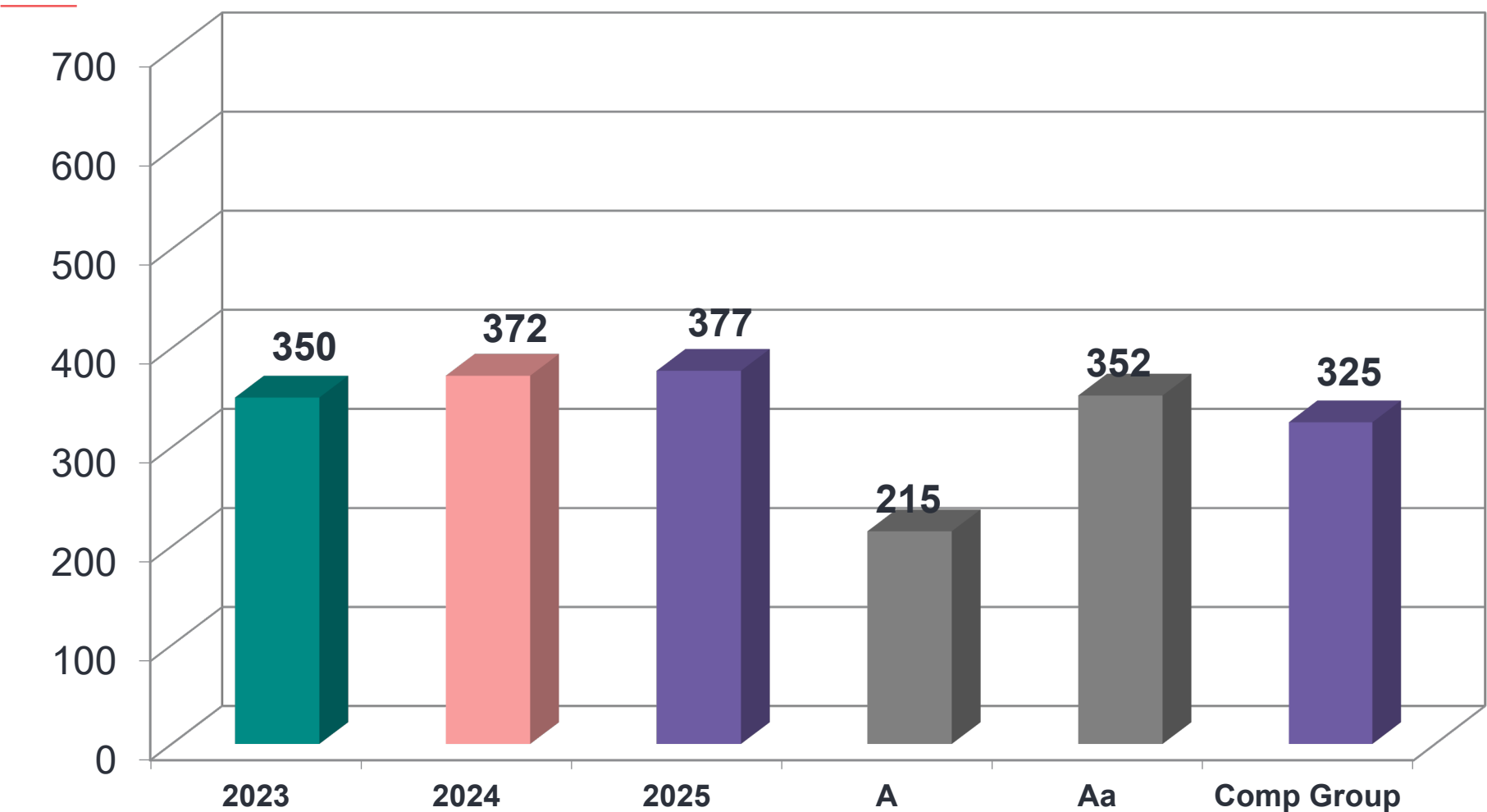


% Net Revenues



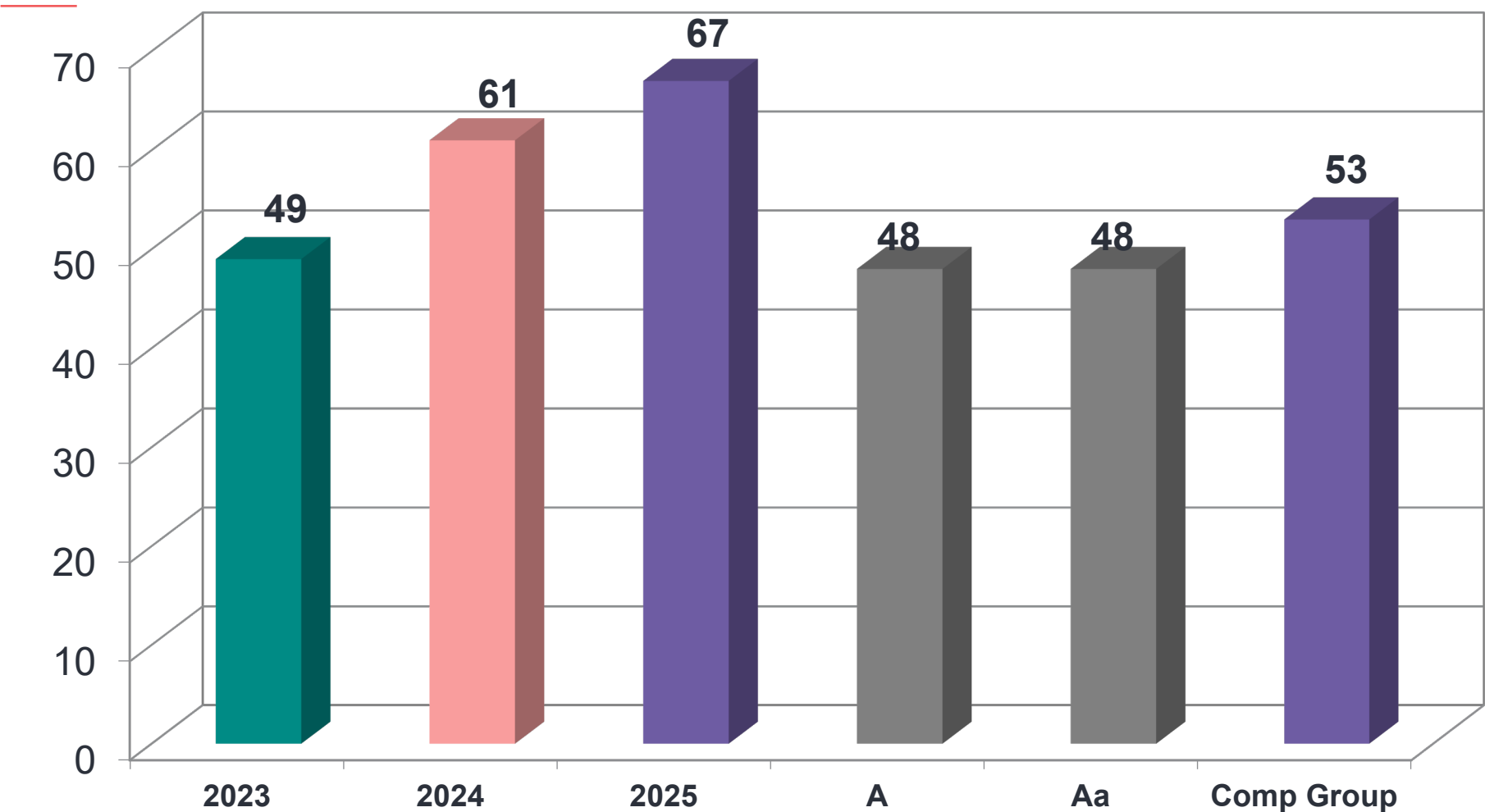
Other Information

Days Unrestricted Cash and Investments



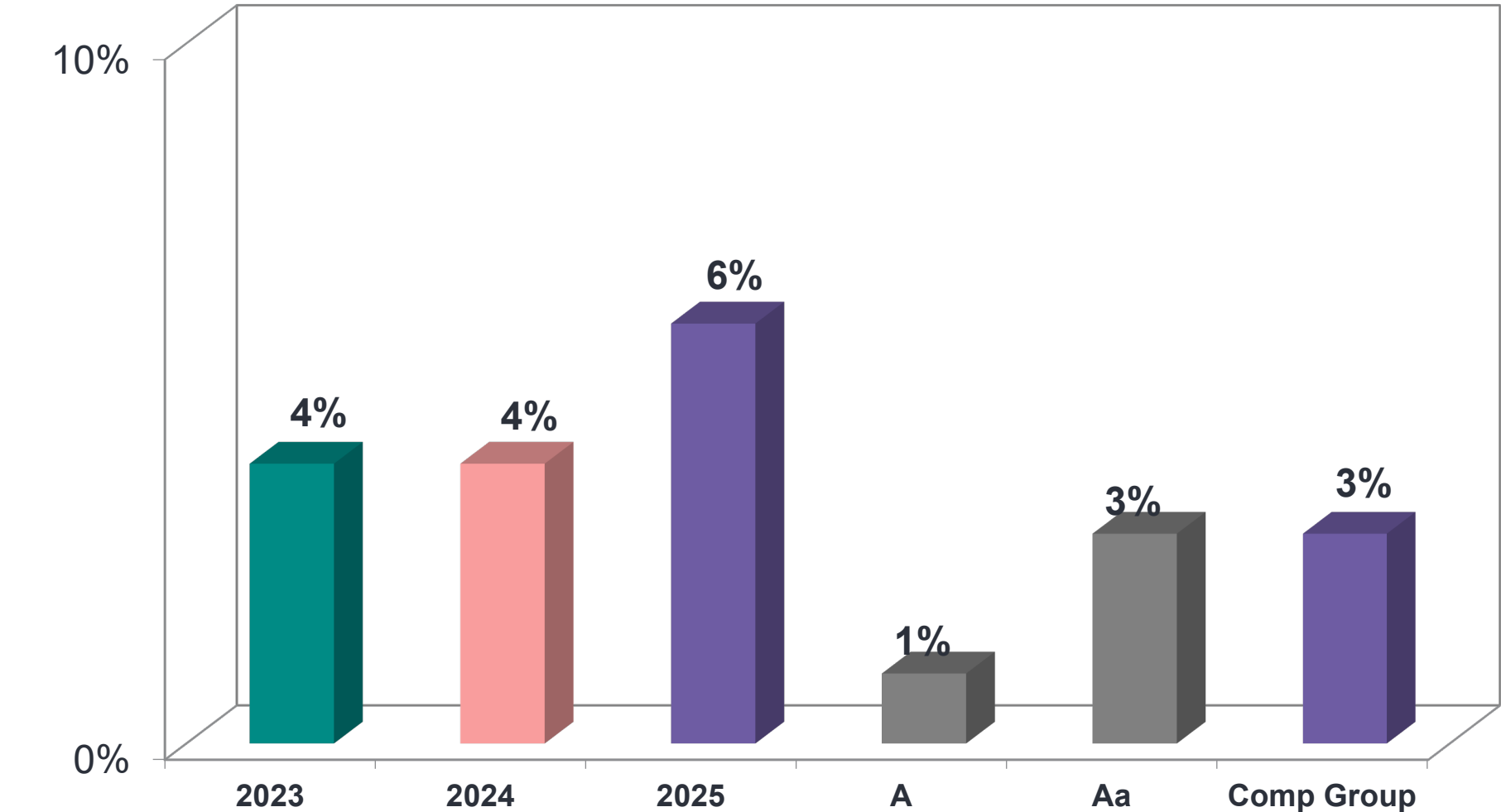
Fitch Ratings: Fiscal Year 2024
Not-for-Profit Health Care Medians August 2025

Days in Accounts Receivable



Fitch Ratings: Fiscal Year 2024
Not-for-Profit Health Care Medians August 2025

Operating Margin (Operating Income/Total Revenue)

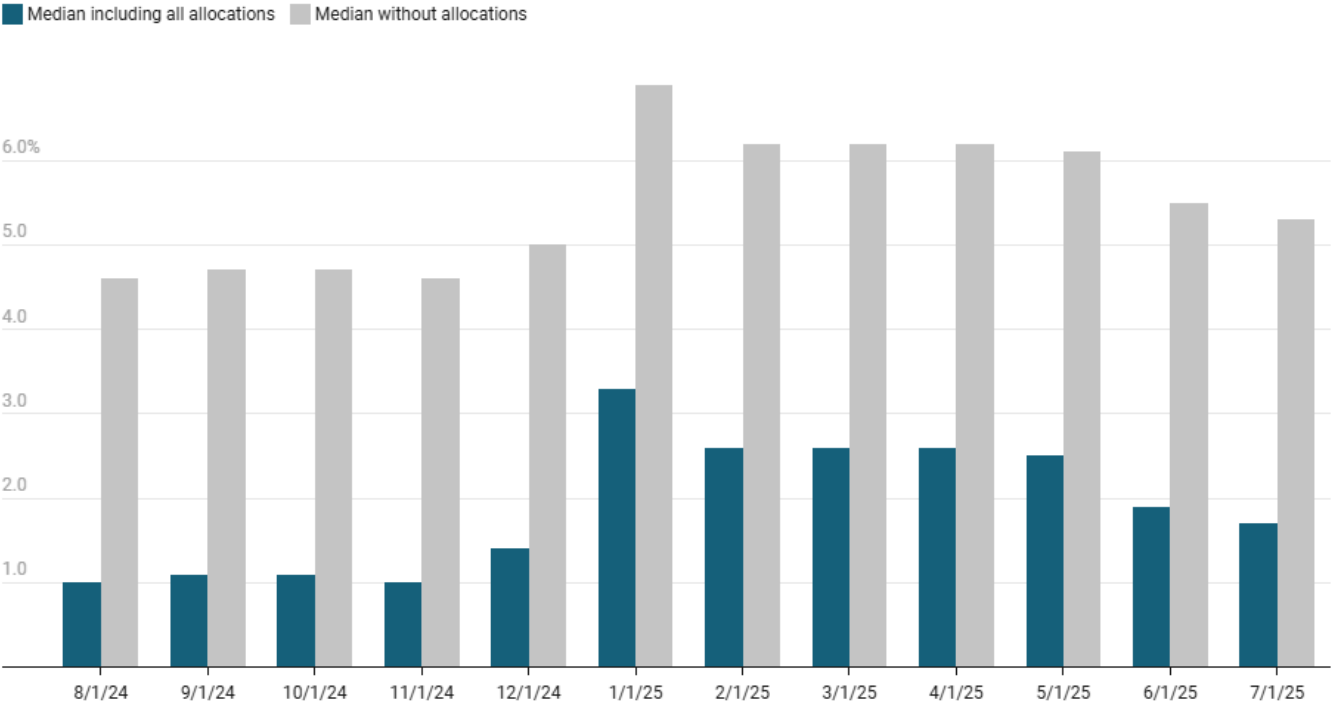


**Comp Group Operating Margin ranges from (6.3%) to 10.4% with 4 positive margin and 1 negative margins*

*Fitch Ratings: Fiscal Year 2024
Not-for-Profit Health Care Medians August 2025*

Operating Margin Index

Kaufman Hall CYTD Operating Margin Index: July 2025 Data



Source: *National Hospital Flash Report*, July 2025, Kaufman Hall

GASB Accounting Updates

- GASB Statement No. 103, *Financial Reporting Model Improvements*. Effective for the System beginning July 1, 2025.
- GASB Statement No. 104, *Disclosure of Certain Capital Assets*. Effective for the System beginning July 1, 2025.

Your Service Team



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About Baker Tilly

Committed to health care

The demand for vital health care services continues to rise amid a multitude of challenges that impact the quality, accessibility, and efficiency of care.

From helping you comply with new regulations to easing your tax burden to exploring new care models, our dedicated health care professionals have the experience and expertise to help you navigate a complex new world.



Nearly
6,500
**HEALTH CARE
CLIENTS**
across the nation

Nearly
500
PROFESSIONALS
specializing
in health care

More than
60
PRINCIPALS
specializing
in health care

**LEADERSHIP
INVOLVEMENT**
with AICPA Health Care
Expert Panel and HFMA
National Principles and
Practice Board

As of June 3, 2025, Baker Tilly and Moss Adams have merged. The statistics provided are combined unless otherwise noted and are based on data currently available. Actual counts may vary slightly and will be finalized during the integration process.

INDUSTRY EXPERTISE

Hospitals & health systems

Our dedicated health care professionals offer personal, senior-level attention to help you strengthen your finances and operations.

We serve a broad range of clients across the nation. We leverage our deep knowledge of both the national health care marketplace and local and regional competitive environments to provide customized solutions that can make a difference to your organization.



More than
1,200
**HOSPITAL
CLIENTS**
across the nation

Nearly
500
PROFESSIONALS
specializing
in health care

More than
60
PRINCIPALS
specializing
in health care

As of June 3, 2025, Baker Tilly and Moss Adams have merged. The statistics provided are combined unless otherwise noted and are based on data currently available. Actual counts may vary slightly and will be finalized during the integration process.

Health care advisory services

Audit and tax are vital. But you have complex needs that go beyond these core functions. Our dedicated health care consulting team provides a range of services to address all your emerging needs—both now and in the future.

Health care consulting		
STRATEGY & INTEGRATION	PROVIDER REIMBURSEMENT ENTERPRISE SERVICES	GOVERNMENT COMPLIANCE
Provider risk analysis, contracting & operational design	Medicare & medicaid	Regulatory compliance
M&A support	Provider-based licensure & certification	Coding validation
Feasibility studies	Medical education	Coding department redesign
Market intelligence & benchmarking	Uncompensated care	EHR internal controls
Strategic planning & implementation	Wage index reviews	Corporate compliance
Managed care assessment & negotiation	Contract compliance	
Service line enhancement & analyses		
INFORMATION TECHNOLOGY	OPERATIONAL IMPROVEMENT	LEAN TRANSFORMATION
HIPAA security & privacy	Revenue cycle enhancement	3P & innovation
Network security & penetration testing	Claims recovery	Lean strategic planning & strategy deployment (hoshin kanri)
HITRUST assessment & certification	Litigation support	Lean management systems & operations
Disaster recovery planning	Employer health benefits	Quality & patient safety
PCI DSS audits	Financial turnaround	Internal infrastructure development
SOC pre-audit gap analysis & readiness	Performance excellence	
SOC audits	Valuations	



2025 Executive Health Care Conference

• 30TH ANNIVERSARY | SAVE THE DATE!

Join C-suite professionals from across the health care ecosystem to discuss the state of the industry and prepare leaders for 2026.

HIGHLIGHTS

Nov 12: Women's Executive Health Care Leadership Forum

Nov 13: State of the Union
Political Point-Counterpoints
Reception with Keynotes

Nov 14: Economic Forecast



NOVEMBER
12–14, 2025



Red Rock Casino
Resort & Spa
Las Vegas, NV

REGISTRATION NOW OPEN



MOSSADAMS ×



bakertilly

Keynote Speakers



Chiquita Brooks-LaSure
*Former CMS Administrator
The Century Foundation*



Alex Azar
*Former United States Secretary of
Health and Human Services*



Chris Sununu
*Former Governor
of New Hampshire*



Tim Ryan
Former U.S. Congressman



Susan Dentzer
*President & CEO
America's Physician Group*



Bradford Koles Jr.
*Vice President
Advisory Board Company*

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.

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Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Salinas Valley Memorial Healthcare System

June 30, 2025 and 2024

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Management's Discussion and Analysis

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Salinas Valley Memorial Healthcare System

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2025, 2024, and 2023

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, 2025, with comparative financial information as of and for the years ended June 30, 2024 and 2023. 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, 2025, with comparative financial information as of and for the years ended June 30, 2024 and 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS – Salinas Valley Health

General Salinas Valley Health Description

The Salinas Valley Memorial Hospital, now known as Salinas Valley Health Medical Center as part of 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, a local Medicare Advantage program in Monterey County;
- Taylor Family Farms Health and Wellness Center (Rural Health Clinic);
- 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 nine urgent care locations and a system-wide information network.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
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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 Governmental Accounting Standards Board (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) restricted – nonexpendable (expendable earnings only), (b) restricted – expendable (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
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Financial Highlights

The following table illustrates comparable statistics (excluding newborns) for the year ended June 30, 2025, as compared to the years ended June 30, 2024 and 2023:

	Year Ended June 30,			Change	
	2025	2024	2023	2025/2024	2024/2023
Admissions	11,642	11,015	11,808	627	(793)
Average daily census	115	117	130	(2)	(13)
Average length of stay	4	4	4	-	-
Patient days					
Medicare	21,013	21,375	23,421	(362)	(2,046)
Managed care	6,930	7,634	8,590	(704)	(956)
Medi-Cal and CCAH	12,523	12,535	13,892	(12)	(1,357)
Other	1,465	1,208	1,435	257	(227)
Total patient days	<u>41,931</u>	<u>42,752</u>	<u>47,338</u>	<u>(821)</u>	<u>(4,586)</u>
Outpatient visits					
Hospital outpatients	80,516	67,092	60,316	13,424	6,776
Laboratory	88,266	57,619	7,430	30,647	50,189
Emergency room	63,175	64,522	65,873	(1,347)	(1,351)
Total outpatient visits	<u>231,957</u>	<u>189,233</u>	<u>133,619</u>	<u>42,724</u>	<u>55,614</u>

As shown above, patient days decreased 2.0% during 2025 from the levels of the prior year. Outpatient visits increased 22.6% during 2025, from the levels of the prior year, with an increase in hospital outpatient visits and laboratory visits, and a decrease in emergency room patients. The increase in total outpatient visits in 2025 is largely due to laboratory visits which have increased substantially due to Salinas Valley Health Clinic lab tests being referred to Salinas Valley Health Medical Center which started in October of 2023, and to increases in outpatient surgery, catheterization laboratory and most outpatient areas.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
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Abbreviated Consolidated Statements of Net Position

The following abbreviated consolidated statements of net position compare the balances as of June 30, 2025, to that of June 30, 2024 and 2023 (in thousands):

	As of June 30,			Change	
	2025	2024	2023	2025/2024	2024/2023
	(as restated)				
Current assets:					
Cash and cash equivalents	\$ 312,848	\$ 273,204	\$ 335,989	\$ 39,644	\$ (62,785)
Patient accounts receivable, net	148,799	124,912	97,434	23,887	27,478
Other	190,972	151,279	85,886	39,693	65,393
Total current assets	652,619	549,395	519,309	103,224	30,086
Board-designated funds	176,241	166,414	157,875	9,827	8,539
Capital assets, net	256,027	259,854	256,235	(3,827)	3,619
Other assets, net	210,458	197,825	143,852	12,633	53,973
Total assets	1,295,345	1,173,488	1,077,271	121,857	96,217
Deferred outflows	56,077	86,622	118,048	(30,545)	(31,426)
Total assets and deferred outflows	\$ 1,351,422	\$ 1,260,110	\$ 1,195,319	\$ 91,312	\$ 64,791
Current liabilities	\$ 134,053	\$ 137,392	\$ 101,993	\$ (3,339)	\$ 35,399
Noncurrent liabilities	30,622	51,124	89,839	(20,502)	(38,715)
Deferred inflows	81,836	72,278	66,000	9,558	6,278
Total liabilities and deferred inflows	246,511	260,794	257,832	(14,283)	2,962
Net position:					
Invested in capital assets, net	256,777	260,205	254,730	(3,428)	5,475
Reserved for minority interest	(8,929)	(6,629)	(4,705)	(2,300)	(1,924)
Restricted - expendable	3,940	4,581	5,602	(641)	(1,021)
Restricted - nonexpendable	1,232	1,268	1,205	(36)	63
Unrestricted	851,891	739,891	680,655	112,000	59,236
Total net position	1,104,911	999,316	937,487	105,595	61,829
Total liabilities, deferred inflows, and net position	\$ 1,351,422	\$ 1,260,110	\$ 1,195,319	\$ 91,312	\$ 64,791

Analysis – 2025 and 2024

Total current assets increased by \$103.2 million in 2025, compared to 2024, due primarily to an increase in other current assets consisting primarily of the current portion of investments in marketable securities previously held in cash savings and patient accounts receivables attributed to an increase in untimely payments from commercial payers. There are ongoing collection efforts to address this matter. Additional prepaid assets pertaining to costs paid in advance for subscription-based information technology arrangements (SBITAs) whose terms have not yet begun also led to an increase in 2025 compared to 2024.

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Board-designated funds increased by \$9.8 million in 2025 as compared to 2024 due to incoming transfers from the operating account. Capital assets, net decreased by \$3.8 million in 2025 as compared to 2024, due primarily to depreciation expense incurred in excess of capital asset acquisitions. Other assets increased by \$12.6 million, primarily due to an increase in net pension assets.

Current liabilities decreased by \$3.3 million in 2025, primarily due to decreases in accounts payable and accrued expenses. Noncurrent liabilities decreased by \$20.5 million in 2025, primarily due to a decrease in the net pension liability.

Analysis – 2024 and 2023

Total current assets increased by \$30.1 million in 2024, compared to 2023, due primarily to an increase in cash and cash equivalents partially offset by a decrease in short-term investments within other current assets.

Board-designated funds increased by \$8.5 million in 2024, compared to 2023, due to incoming transfers from the operating account. Capital assets, net, increased by \$3.6 million in 2024 as compared to 2023, due primarily to capital asset acquisitions in excess of depreciation expense incurred. Other assets increased by \$54.0 million, primarily due to an increase in long-term investments.

SVH adopted GASB Statement No. 101, *Compensated Absences* (GASB No. 101), during the fiscal year ended June 30, 2025, applied retrospectively as of July 1, 2023. SVH evaluated the total liability pertaining to employee leave, and as a result, SVH recognized additional current liabilities of \$16.9 million in its consolidated statements of net position. Noncurrent liabilities decreased by \$38.7 million in 2024, primarily due to a decrease in the net pension liability.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
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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, 2025, to that of the years ended June 30, 2024 and 2023 (in thousands):

	Year Ended June 30,			Change	
	2025	2024 (as restated)	2023	2025/2024	2024/2023
Net patient service revenues	\$ 814,635	\$ 752,195	\$ 726,870	\$ 62,440	\$ 25,325
Other revenues	31,719	22,801	22,478	8,918	323
Total operating revenues	846,354	774,996	749,348	71,358	25,648
Total operating expenses	(794,705)	(745,960)	(721,916)	(48,745)	(24,044)
Operating income	51,649	29,036	27,432	22,613	1,604
Total nonoperating income (loss), net	53,946	50,271	39,199	3,675	11,072
Increase in net position	\$ 105,595	\$ 79,307	\$ 66,631	\$ 26,288	\$ 12,676
	Year Ended June 30,			Change	
	2025	2024 (as restated)	2023	2025/2024	2024/2023
Net patient service revenues	\$ 814,635	\$ 752,195	\$ 726,870	\$ 62,440	\$ 25,325
Other revenues	31,719	22,801	22,478	8,918	323
Total operating revenues	846,354	774,996	749,348	71,358	25,648
Total operating expenses	(794,705)	(745,960)	(721,916)	(48,745)	(24,044)
Operating income	51,649	29,036	27,432	22,613	1,604
Total nonoperating income (loss), net	53,946	50,271	39,199	3,675	11,072
Increase in net position	\$ 105,595	\$ 79,307	\$ 66,631	\$ 26,288	\$ 12,676
Net position, beginning of year	999,316	937,487	870,856	61,829	66,631
Cumulative effect of restatement	-	(17,478)	-	17,478	\$ (17,478)
Net position, beginning of year, as restated	999,316	920,009	870,856	79,307	49,153
Net position, end of year	\$ 1,104,911	\$ 999,316	\$ 937,487	\$ 105,595	\$ 61,829

Analysis – 2025 and 2024

Operating revenues increased by 9.2% in 2025 as compared to 2024, driven primarily by net patient service revenues. Net patient service revenues in 2025 increased by \$62.4 million to \$814.6 million from \$752.2 million in 2024. Management attributes the change in net patient service revenues during 2025 to growth in outpatient volumes.

Salinas Valley Memorial Healthcare System

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2025, 2024, and 2023

Operating expenses increased in 2025 by approximately \$48.7 million or 6.5% over 2024 primarily from increases in salaries and wages, and supplies and medical fees required for services to increased patient volumes. Operating income in 2025 increased by \$22.6 million to \$51.7 million from \$29.0 million for 2024.

Nonoperating income, net for 2025 was \$53.9 million as compared to \$50.3 million in 2024. An increase in investment income on newly acquired marketable securities drove the change in nonoperating income for 2025 compared to 2024. Increase in net position as a percentage of total operating revenues was 12.5% for 2025, compared to 10.2% for 2024.

Analysis – 2024 and 2023

Operating revenues increased by 3.4% in 2024 as compared to 2023, driven primarily by net patient service revenues. Net patient service revenues in 2024 increased by \$25.3 million to \$752.2 million from \$726.9 million in 2023. Management attributes the change in net patient service revenues to a return to normalized Hospital operations during 2024 including growth in outpatient volumes.

Operating expenses increased in 2024 by approximately \$24.0 million or 3.3% over 2023, primarily from increases in salaries, wages, and benefits at the Hospital. The implementation of GASB No. 101 resulted in a decrease of \$0.5 million of operating expenses; however the cumulative effect of adjustments to beginning net position was \$17.4 million, resulting in an overall net impact to ending net position of \$16.9 million. Operating income for 2024 increased by \$1.6 million to \$29.0 million from \$27.4 million for 2023.

Nonoperating income, net, for 2024 was \$50.3 million as compared to \$39.2 million in 2023. An increase in investment income on newly acquired marketable securities drove the change in nonoperating income for 2024 compared to 2023. Increase in net position as a percentage of total operating revenues was 10.2% for 2024, compared to 8.9% for 2023.

Net Patient Service Revenues

Net patient service revenues by funding source for 2025, 2024, and 2023 (in thousands) were as follows:

	Year Ended June 30,			Change	
	2025	2024	2023	2025/2024	2024/2023
Payor					
Hospital operations:					
Medicare	\$ 184,226	\$ 172,162	\$ 174,595	\$ 12,064	\$ (2,433)
Managed care	357,431	333,913	322,294	23,518	11,619
Medi-Cal and CCAH	118,707	108,042	104,474	10,665	3,568
Other	32,233	26,664	23,916	5,569	2,748
Consolidated subsidiaries	122,038	111,414	101,591	10,624	9,823
Total net patient service revenues	<u>\$ 814,635</u>	<u>\$ 752,195</u>	<u>\$ 726,870</u>	<u>\$ 62,440</u>	<u>\$ 25,325</u>

Net patient service revenues increased by 8.3% in 2025, compared to 2024. Net patient service revenues increased by 3.5% in 2024, as compared to 2023.

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Liquidity and Other Key Ratios

Following is a table showing liquidity and other key ratios for the fiscal year ended June 30, 2025, as compared to June 30, 2024 and 2023:

	Year Ended June 30,		
	2025	2024	2023
Liquidity ratios			
Current ratio	4.9	4.0	5.1
Days of revenue in patient accounts receivable	66.7	60.6	48.9
Margins			
Operating income to total operating revenues	6.1%	3.7%	3.7%
Increase in net position (net income) to total operating revenues	12.5%	10.2%	8.9%
Return on total net position	9.6%	7.9%	7.1%

SVH's current ratio (ratio of current assets to current liabilities) increased from 2024 to 2025, while it decreased substantially year over year from 2023 and 2024. The increase in the current ratio in 2025 was attributed to interest earnings and increases in cash and cash equivalents and short term investments. The decrease in the current ratio in 2024 was attributed to purchase of investments in securities funded by cash previously held in bank savings.

Salinas Valley Memorial Healthcare System

Management's Discussion and Analysis

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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 2025, 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.

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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 \$17.9 million, \$23.8 million, and \$9.7 million net funding under this program in the years ended June 30, 2025, 2024, and 2023, respectively.

Charity Care and Community Funding

SVH delivered charity care, community benefits, and unreimbursed patient care totaling \$168 million, \$155 million, and \$160 million in the years ended June 30, 2025, 2024, and 2023, respectively. SVH has made additional investments in the community, in alignment with our Community Health Needs Assessment (CHNA), develop collaborative community partnerships that create a lasting impact on the well-being of our community by optimizing 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
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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 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.

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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 either matched or 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 equal or 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, 2025, 2024, and 2023 (in thousands):

	As of June 30,			Change	
	2025	2024	2023	2025/2024	2024/2023
Cash and investments	\$ 515,636	\$ 459,539	\$ 403,720	\$ 56,097	\$ 55,819
Net position held in trust for pension benefits	\$ 515,636	\$ 459,539	\$ 403,720	\$ 56,097	\$ 55,819

The following are abbreviated statements of changes in fiduciary net position as of June 30, 2025, 2024, and 2023 (in thousands):

	Year Ended June 30,			Change	
	2025	2024	2023	2025/2024	2024/2023
Investment income (loss), net	\$ 63,511	\$ 62,101	\$ (83,746)	\$ 1,410	\$ 145,847
Employer contributions	12,603	11,270	61,579	1,333	(50,309)
Member contributions	2,800	2,506	2,578	294	(72)
Benefit payments to members and beneficiaries	(22,703)	(19,962)	(18,961)	(2,741)	(1,001)
Administrative expenses	(114)	(96)	(105)	(18)	9
Net change in fiduciary net position	\$ 56,097	\$ 55,819	\$ (38,655)	\$ 278	\$ 94,474

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
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Analysis – 2025 and 2024

During 2025, the net position held in trust for pension benefits increased by approximately 12.2%, compared to 2024. Employer contributions were \$12.6 million in 2025 compared to \$11.3 million in 2024. Benefit payments were \$22.6 million in 2025 compared to \$20.0 million in 2024. Net investment income was \$63.5 million in 2025 compared to \$62.1 million in 2024.

Analysis – 2024 and 2023

During 2024, the net position held in trust for pension benefits increased by approximately 13.8%, compared to 2023. Employer contributions were \$11.3 million in 2024 compared to \$61.6 million in 2023. Benefit payments were \$20.0 million in 2024 compared to \$19.0 million in 2023. Net investment income was \$62.1 million in 2024 compared to net investment loss of \$83.7 million in 2023.

Report of Independent Auditors

The Board of Directors
Salinas Valley Memorial Healthcare System

Report on the Audit of the Financial Statements

Opinion

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, 2025 and 2024, and the related notes to the consolidated 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 the System as of June 30, 2025 and 2024, 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 Opinion

We conducted our audits 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 Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts 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 consolidated financial statements.

In performing an audit in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts, 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 – Change in Accounting Principle

As discussed in Note 2 and 17 to the consolidated financial statements, effective July 1, 2024, the System adopted GASB Statement No. 101, *Compensated Absences*, requiring retroactive application.

Accordingly, the fiscal year 2024 consolidated financial statements have been restated to apply this new accounting standard. Our opinion on the consolidated financial statements 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 on pages 1 to 12 and supplemental pension and post-retirement benefit information on page 64 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 an opinion on the consolidated financial statements that collectively comprise the System's consolidated financial statements. The consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position on pages 59 to 61 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 on page 62 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.

San Francisco, California

November 21, 2025

Consolidated Financial Statements

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Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2025 and 2024
(in Thousands)

	2025	2024 (as restated)
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 312,848	\$ 273,204
Patient accounts receivable, net of estimated uncollectibles of \$65,015 and \$55,096 at June 30, 2025 and 2024, respectively	148,799	124,912
Short-term investments	142,779	127,818
Supplies inventory	8,357	7,763
Lease receivable, current portion	436	785
Other current assets	39,400	14,913
Total current assets	652,619	549,395
BOARD-DESIGNATED FUNDS	176,241	166,414
CAPITAL ASSETS		
Nondepreciable	40,835	44,528
Depreciable, net	215,192	215,326
Total capital assets, net	256,027	259,854
OTHER ASSETS		
Right-of-use assets, net of amortization	15,387	14,000
Subscription assets, net of amortization	8,060	10,207
Lease receivable, net of current portion	2,041	467
Long-term investments	148,417	156,598
Investments in affiliates	15,176	14,987
Net pension asset	19,774	-
Other long-term assets	1,603	1,566
Total other assets	210,458	197,825
Total assets	1,295,345	1,173,488
DEFERRED OUTFLOWS – ACTUARIAL	55,439	85,734
DEFERRED OUTFLOWS – GOODWILL	638	888
Total deferred outflows	56,077	86,622
Total assets and deferred outflows	\$ 1,351,422	\$ 1,260,110

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2025 and 2024
(in Thousands)

	2025	2024 (as restated)
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Notes payable, current portion	\$ 109	\$ 104
Accounts payable	18,335	20,037
Accrued expenses	86,910	87,073
Estimated third-party payor settlements	4,491	3,689
Lease liabilities, current portion	4,694	4,336
Subscription liabilities, current portion	2,780	4,228
Self-insurance liabilities, current portion	16,734	17,925
Total current liabilities	134,053	137,392
NET PENSION LIABILITY	-	19,697
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	3,852	4,160
NOTES PAYABLE, net of current portion	440	548
LEASE LIABILITIES, net of current portion	11,798	11,179
SUBSCRIPTION LIABILITIES, net of current portion	2,876	3,461
SELF-INSURANCE LIABILITIES, net of current portion	11,656	12,079
Total liabilities	164,675	188,516
DEFERRED INFLOWS – ACTUARIAL	79,395	71,166
DEFERRED INFLOWS – LEASES	2,441	1,112
Total deferred inflows	81,836	72,278
Total liabilities and deferred inflows	246,511	260,794
NET POSITION		
Invested in capital assets, net of related debt	256,777	260,205
Reserved for minority interest	(8,929)	(6,629)
Restricted – expendable	3,940	4,581
Restricted – nonexpendable	1,232	1,268
Unrestricted	851,891	739,891
Total net position	1,104,911	999,316
Total liabilities, deferred inflows, and net position	\$ 1,351,422	\$ 1,260,110

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2025 and 2024
(in Thousands)

	2025	2024 (as restated)
OPERATING REVENUES		
Net patient service revenues	\$ 814,635	\$ 752,195
Other revenues	31,719	22,801
Total operating revenues	846,354	774,996
OPERATING EXPENSES		
Salaries and wages	258,364	238,285
Compensated absences	42,791	39,823
Employee benefits	106,053	107,065
Supplies	120,465	101,259
Purchased services	67,611	64,825
Medical fees	93,600	85,854
Other fees	41,497	44,191
Depreciation and amortization	37,280	36,263
Other expenses	27,044	28,395
Total operating expenses	794,705	745,960
Operating income	51,649	29,036
NONOPERATING REVENUES AND EXPENSES		
Grants and contributions	9,027	3,753
Property tax revenue	6,384	5,680
Investment income, net	42,800	39,603
Provision for credit losses	(13,618)	(5,447)
Gain on disposal of capital assets	116	157
Income from investments in affiliates	2,490	2,422
Other	4,605	2,374
Nonoperating income, net	51,804	48,542
INCOME BEFORE MINORITY INTEREST	103,453	77,578
MINORITY INTEREST IN INCOME OF CONSOLIDATED AFFILIATES	2,142	1,729
INCREASE IN NET POSITION	105,595	79,307
NET POSITION, beginning of year	999,316	937,487
CUMULATIVE EFFECT OF RESTATEMENT (note 17)	-	(17,478)
NET POSITION, beginning of year, as restated	999,316	920,009
NET POSITION, end of year	\$ 1,104,911	\$ 999,316

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows
Years Ended June 30, 2025 and 2024
(in Thousands)

	2025	2024 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$ 724,192	\$ 681,638
Cash paid to employees for services	(445,069)	(378,918)
Cash paid to suppliers for goods and services	(277,393)	(267,031)
Other receipts from operations	31,719	22,801
Net cash provided by operating activities	33,449	58,490
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from property taxes levied by the County	6,384	5,680
Grants and donations received	9,027	3,753
Net cash provided by noncapital financing activities	15,411	9,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(23,836)	(31,819)
Proceeds from sale of capital assets	405	1,762
Proceeds from lease receivable	2,681	1,184
Payments on lease liabilities	(4,834)	(5,735)
Payments on subscription liabilities	(5,268)	(7,743)
Principal payments on notes payable	(103)	(103)
Net cash used in capital and related financing activities	(30,955)	(42,454)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(302,068)	(615,819)
Proceeds from sales of investments	338,088	535,789
Changes in board-designated funds	(9,827)	(8,539)
Other nonoperating distribution	(6,600)	(1,711)
Distribution from minority interest in affiliates, net	2,146	2,026
Net cash provided by (used in) investing activities	21,739	(88,254)
NET CHANGE IN CASH AND CASH EQUIVALENTS	39,644	(62,785)
CASH AND CASH EQUIVALENTS, beginning of year	273,204	335,989
CASH AND CASH EQUIVALENTS, end of year	\$ 312,848	\$ 273,204

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows
Years Ended June 30, 2025 and 2024
(in Thousands)

	2025	2024
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 51,649	\$ 29,036
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	37,280	36,263
Provision for doubtful accounts	67,358	41,364
Net (gain) loss on disposal of capital and subscription assets	(116)	306
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(91,245)	(68,842)
Lease receivable	(3,906)	-
Supplies and other assets	(25,118)	(467)
Net pension asset	(39,471)	(35,314)
Deferred outflows	30,545	31,426
Deferred inflows	9,558	6,278
Accounts payable and accrued expenses	(1,865)	14,299
Self-insurance liabilities	(1,922)	4,262
Estimated third-party payor settlements	802	(1,715)
Right-of-use assets/lease liabilities	(100)	1,594
Net cash provided by operating activities	<u>\$ 33,449</u>	<u>\$ 58,490</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Noncash acquisition of ROU assets	<u>\$ 5,911</u>	<u>\$ 4,575</u>
Noncash acquisition of subscription assets	<u>\$ 3,235</u>	<u>\$ 5,086</u>

See accompanying notes.

Salinas Valley Memorial Healthcare System
Employees' Pension Plan – Statements of Fiduciary Net Position
June 30, 2025 and 2024
(in Thousands)

	<u>2025</u>	<u>2024</u>
ASSETS		
Investments, at fair value		
Mutual funds	<u>\$ 515,636</u>	<u>\$ 459,539</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 515,636</u></u>	<u><u>\$ 459,539</u></u>

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See accompanying notes.

Salinas Valley Memorial Healthcare System
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2025 and 2024
(in Thousands)

	2025	2024
ADDITIONS		
Investment income		
Net appreciation in fair value of investments	\$ 51,590	\$ 50,748
Dividends	11,921	11,353
Net investment income	63,511	62,101
Contributions		
Employer	12,603	11,270
Members	2,800	2,506
Total contributions	15,403	13,776
Total additions	78,914	75,877
DEDUCTIONS		
Benefit payments	22,703	19,962
Administrative expenses	114	96
Total deductions	22,817	20,058
NET CHANGE IN NET POSITION	56,097	55,819
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, beginning of year	459,539	403,720
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, end of year	\$ 515,636	\$ 459,539

See accompanying notes.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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 above description of 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.

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

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

Basis of accounting – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 GAAP 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 consolidated financial statements are prepared using the economic resources measurement focus.

New accounting pronouncements – In May 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, which enhances the effectiveness of financial reporting models for governments. The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. This statement is effective for fiscal years beginning after June 15, 2025. SVH is currently assessing the potential impact of this statement on its consolidated financial statements.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires separate disclosure of certain capital assets in the notes, such as lease, intangible right-to-use (ROU), and subscription assets, each by major class. It also establishes new disclosure requirements for capital assets that a government has decided to sell and for which a sale is probable within one year. This Statement is effective for fiscal years beginning after June 15, 2025, with retroactive application required upon adoption. SVH is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Use of estimates – The preparation of consolidated financial statements in conformity with GAAP 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, employee benefit costs including pension, useful lives of capital assets, discount rate for leases, useful lives of ROU assets, deferred inflows of resources, probability of accumulated leave being used or settled and the timing of those payments related to calculation of employee sick leave accrual, subscription term of subscription assets, and discount rates used for subscription liabilities. 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.

Salinas Valley Memorial Healthcare System

Notes to 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.

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 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 \$5 thousand, general acquisitions over \$5 thousand, and group purchases over \$25 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

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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, 2025 and 2024.

Right-of-use assets – SVH has recorded ROU assets in accordance with GASB Statement No. 87, *Leases* (GASB No. 87). The ROU 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 ROU assets are amortized on a straight-line basis over the life of the related lease. See Note 13 for further discussion of ROU assets.

Subscription assets – SVH has recorded subscription assets in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (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:

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

	2025	2024
Deferred outflows - actuarial		
Pension	\$ 54,708	\$ 84,902
Post-retirement medical plans	731	832
Total deferred outflows - actuarial	55,439	85,734
Deferred outflows - goodwill	638	888
Total deferred outflows	<u>\$ 56,077</u>	<u>\$ 86,622</u>
Deferred inflows - actuarial		
Pension	\$ 77,507	\$ 69,533
Post-retirement medical plans	1,888	1,633
Total deferred inflows - actuarial	79,395	71,166
Deferred inflows - leases	2,441	1,112
Total deferred inflows	<u>\$ 81,836</u>	<u>\$ 72,278</u>

Accrued expenses – SVH recognizes accrued expenses when an obligation for goods or services has been incurred, but not yet paid as of year-end. Accrued expenses at year-end primarily consists of various operating expenses payable to vendors, as well as payroll-related liabilities and compensated absences. See Note 12 for further discussion on compensated absences.

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.

Subscription liabilities – SVH has recorded subscription liabilities in accordance with 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.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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, 2025 and 2024.

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, subscription assets and right of use assets, net, reduced by outstanding principal balances of debt (including subscription and lease liabilities) 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.
 - *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.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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 – For the years ended June 30, 2025 and 2024, SVH was obligated and received approximately \$5.2 million and \$254,000, respectively, 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. Cost of services rendered to patients who qualified for financial assistance under SVH's charity care policy, calculated using the cost-to-charge ratio, totaled \$1.3 million and \$1.4 million for the years ended June 30, 2025 and 2024, 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 \$14.0 million and \$5.8 million was included within nonoperating expenses in the consolidated statements of revenue, expense, and changes in net position, for the years ended June 30, 2025 and 2024, 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 23% and negotiated third-party payors amounted to 44% of total net patient service revenues for both years ended June 30, 2025 and 2024. Significant concentrations of net patient accounts receivable include Medicare at 18% and 14% and negotiated third-party payors at 70% and 71% at June 30, 2025 and 2024, respectively.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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.

Reclassifications – Certain reclassifications of prior year's balances have been made to conform with the current year presentation. Such reclassifications did not affect the total increase in net position or total current or long-term assets or liabilities. The restatement related to the adoption of GASB Statement No. 101, which resulted in adjustments to beginning net position and expense, is separately disclosed in Note 17.

Note 3 – Net Patient Service Revenues

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

	2025	2024
Gross patient service revenues		
Routine inpatient services	\$ 461,464	\$ 439,283
Ancillary services	2,536,372	2,198,393
Outpatient services	609,230	580,622
Total gross patient service revenues	<u>3,607,066</u>	<u>3,218,298</u>
Deductions from gross patient service revenues		
Contractual allowance for statutory and negotiated rates	(2,717,369)	(2,417,329)
Provision for doubtful accounts	(67,358)	(41,364)
Charity care	<u>(7,704)</u>	<u>(7,410)</u>
Net patient service revenues	<u><u>\$ 814,635</u></u>	<u><u>\$ 752,195</u></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 system 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 system 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, 2021.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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, 2021.

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. The 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 \$4.2 million and \$9.7 million, respectively, in the years ended June 30, 2025 and 2024, 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

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:

	2025	2024
Cash and cash equivalents	\$ 312,848	\$ 273,204
Short-term investments	142,779	127,818
Board-designated funds	176,241	166,414
Long-term investments	148,417	156,598
Total	<u>\$ 780,285</u>	<u>\$ 724,034</u>

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

	2025	2024
By Board for capital improvements	\$ 176,241	\$ 166,324
By agreement with secured vendor	-	90
Total	<u>\$ 176,241</u>	<u>\$ 166,414</u>

As of June 30, 2025, maturities for SVH's holdings were as follows, in thousands:

	Fair Value	No Maturity	12 Months or Less	13 to 24 Months	25 to 60 Months
Cash and cash equivalents	\$ 312,848	\$ 312,848	\$ -	\$ -	\$ -
U.S. Treasury notes	54,392	-	54,392	-	-
Municipal notes	26,324	-	14,137	2,434	9,753
Corporate notes	86,299	-	23,276	-	63,023
Commercial paper	15,017	-	15,017	-	-
Federal agency notes	83,390	-	63,261	-	20,129
Bank certificates of deposit	90	-	90	-	-
Money market accounts	5,373	5,373	-	-	-
Mutual funds	18,202	18,202	-	-	-
Government securities	178,350	-	-	-	178,350
Total	<u>\$ 780,285</u>	<u>\$ 336,423</u>	<u>\$ 170,173</u>	<u>\$ 2,434</u>	<u>\$ 271,255</u>

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

As of June 30, 2024, maturities for SVH's holdings were as follows, in thousands:

	Fair Value	No Maturity	12 Months or Less	13 to 24 Months	25 to 60 Months
Cash and cash equivalents	\$ 273,204	\$ 273,204	\$ -	\$ -	\$ -
U.S. Treasury notes	34,845	-	34,845	-	-
Municipal notes	38,536	-	31,817	2,817	3,902
Corporate notes	74,284	-	37,661	20,965	15,658
Commercial paper	9,972	-	9,972	-	-
Federal agency notes	67,721	-	14,701	-	53,020
Bank certificates of deposit	90	-	90	-	-
Money market accounts	5,834	5,834	-	-	-
Mutual funds	20,230	20,230	-	-	-
Government securities	199,318	-	14,446	6,051	178,821
Total	<u>\$ 724,034</u>	<u>\$ 299,268</u>	<u>\$ 143,532</u>	<u>\$ 29,833</u>	<u>\$ 251,401</u>

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 such as Moody's or S&P.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

The following table illustrates the fair value and associated credit ratings of investments held by SVH at June 30, 2025 and 2024, in thousands:

Ratings	Fair Value at June 30,	
	2025	2024
A+ / A / A- / A-1+ / A1 / A2 / A3	\$ 159,834	\$ 108,705
AAA / AA+ / AA / AA- / AA1 / AA2 / AA3	274,508	286,695
BBB+	4,945	12,631
SP-1+	-	4,000
NA	4,484	9,890
NR	336,514	302,113
Total	<u>\$ 780,285</u>	<u>\$ 724,034</u>

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, 2025 and 2024, approximately \$11.9 million and \$7.5 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.

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.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

The following describes the 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 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, 2025 and 2024, 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, government securities, 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.

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Notes to Consolidated Financial Statements

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, 2025 and 2024, as stratified by fair value hierarchy level, in thousands:

Description	Level 1	Level 2	Level 3	June 30, 2025
Investments by fair value level				
U.S. Treasury notes	\$ 54,392	\$ -	\$ -	\$ 54,392
Municipal notes	26,324	-	-	26,324
Corporate notes	86,299	-	-	86,299
Federal agency notes	83,390	-	-	83,390
Mutual funds	18,202	-	-	18,202
Government securities	178,350	-	-	178,350
Total by fair value level	<u>\$ 446,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>446,957</u>
Cash equivalents				
Local agency investment fund				102
Cash holdings				<u>312,746</u>
Total cash equivalents				<u>312,848</u>
Commercial paper				15,017
Bank certificates of deposit				90
Money market accounts				<u>5,373</u>
Total investments				<u>\$ 780,285</u>
Description	Level 1	Level 2	Level 3	June 30, 2024
Investments by fair value level				
U.S. Treasury notes	\$ 34,845	\$ -	\$ -	\$ 34,845
Municipal notes	38,536	-	-	38,536
Corporate notes	74,284	-	-	74,284
Federal agency notes	67,721	-	-	67,721
Mutual funds	20,230	-	-	20,230
Government securities	199,318	-	-	199,318
Total by fair value level	<u>\$ 434,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>434,934</u>
Cash equivalents				
Local agency investment fund				94
Cash holdings				<u>273,110</u>
Total cash equivalents				<u>273,204</u>
Commercial paper				9,972
Bank certificates of deposit				90
Money market accounts				<u>5,834</u>
Total investments				<u>\$ 724,034</u>

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Notes to Consolidated Financial Statements

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, 2025 and 2024, as stratified by fair value hierarchy level, in thousands:

June 30, 2025	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity securities	\$ 166,167	\$ -	\$ -	\$ 166,167
Fixed income	349,469	-	-	349,469
Total	<u>\$ 515,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,636</u>
June 30, 2024	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity securities	\$ 326,465	\$ -	\$ -	\$ 326,465
Fixed income	133,074	-	-	133,074
Total	<u>\$ 459,539</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 459,539</u>

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Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

Note 6 – Capital Assets, Net

The following table summarizes SVH's capital asset activity during the year ended June 30, 2025, in thousands:

	June 30, 2024	Increases	Decreases	Transfers	June 30, 2025
Capital assets not depreciated					
Land	\$ 26,059	\$ -	\$ -	\$ -	\$ 26,059
Construction in progress	18,469	11,114	-	(14,807)	14,776
Total capital assets not depreciated	44,528	11,114	-	(14,807)	40,835
Capital assets being depreciated/amortized					
Buildings and improvements	424,647	496	(19)	14,763	439,887
Movable equipment	252,219	12,224	(3,400)	44	261,087
Intangibles	4,594	2	-	-	4,596
Land improvements	2,080	-	-	-	2,080
Total capital assets being depreciated	683,540	12,722	(3,419)	14,807	707,650
Less accumulated depreciation and amortization for					
Buildings and improvements	253,687	13,531	-	-	267,218
Movable equipment	207,326	13,754	(3,131)	-	217,949
Intangibles	5,579	38	-	-	5,617
Land improvements	1,622	52	-	-	1,674
Total accumulated depreciation and amortization	468,214	27,375	(3,131)	-	492,458
Total capital assets being depreciated, net	215,326	(14,653)	(288)	14,807	215,192
Capital assets, net	\$ 259,854	\$ (3,539)	\$ (288)	\$ -	\$ 256,027

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

The following table summarizes SVH's capital asset activity during the year ended June 30, 2024, in thousands:

	June 30, 2023	Increases	Decreases	Transfers	June 30, 2024
Capital assets not depreciated					
Land	\$ 26,059	\$ -	\$ -	\$ -	\$ 26,059
Construction in progress	34,008	22,157	(1,530)	(36,166)	18,469
Total capital assets not depreciated	60,067	22,157	(1,530)	(36,166)	44,528
Capital assets being depreciated/amortized					
Buildings and improvements	389,392	171	-	35,084	424,647
Moveable equipment	241,938	9,471	(272)	1,082	252,219
Intangibles	4,574	20	-	-	4,594
Land improvements	2,080	-	-	-	2,080
Total capital assets being depreciated	637,984	9,662	(272)	36,166	683,540
Less accumulated depreciation and amortization for					
Buildings and improvements	241,803	11,884	-	-	253,687
Movable equipment	193,135	14,388	(197)	-	207,326
Intangibles	5,306	273	-	-	5,579
Land improvements	1,572	50	-	-	1,622
Total accumulated depreciation and amortization	441,816	26,595	(197)	-	468,214
Total capital assets being depreciated, net	196,168	(16,933)	(75)	36,166	215,326
Capital assets, net	\$ 256,235	\$ 5,224	\$ (1,605)	\$ -	\$ 259,854

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.
- Monterey Bay Endoscopy Center, LLC (MBEC), an outpatient diagnostic center for gastroenterology procedures.
- 21st Century Oncology (MRKS), a partnership with MRKS, Inc. (the successor organization after the bankruptcy of Genesis Care), a partnership to provide outpatient cancer care.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

- 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.
- Salinas Valley Health Ventures, LLC (SVHV), a limited liability company organized to identify innovative solutions that address the needs and top strategic aims of SVH.

The following table summarizes the percentage interest of and balance of investments in affiliates (in thousands) at June 30, 2025 and 2024:

Affiliate	Percentage Interest		Investment Balance	
	2025	2024	2025	2024
CHI	49%	49%	\$ 1,686	\$ 1,877
MPSC	12%	12%	7,138	7,156
MRKS	40%	40%	2,935	2,605
MBEC	14%	14%	1,917	1,849
MOOD HEALTH	6%	6%	1,500	1,500
			<u>\$ 15,176</u>	<u>\$ 14,987</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 \$325 thousand and \$318 thousand during the years ended June 30, 2025 and 2024, 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, 2025 and 2024, totaled \$1.8 million and \$2.1 million, respectively.

Note 9 – Self-Insurance Liability

SVHMC is self-insured for workers' compensation claims. Estimated losses of \$14.2 million and \$14.6 million have been accrued under actuarially determined calculations at June 30, 2025 and 2024, of which approximately \$2.6 million and \$2.5 million are considered current liabilities, respectively.

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Notes to Consolidated Financial Statements

The following is a summary of changes in workers' compensation self-insurance liabilities for June 30, 2025 and 2024, in thousands:

	Beginning Balance		Increases		Decreases		Ending Balance		Current Portion
2025	\$ 14,552		\$ 3,338		\$ (3,681)		\$ 14,209		\$ 2,553
2024	\$ 15,523		\$ 2,938		\$ (3,909)		\$ 14,552		\$ 2,474

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, 2025 and 2024, were approximately \$10.9 million and \$12.8 million, respectively, included in self-insurance liabilities, current portion in the consolidated statements of net position.

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 \$1.6 million to BETA for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, was approximately \$3.3 million and \$2.7 million, respectively.

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Notes to Consolidated Financial Statements

Note 10 – Notes Payable, Net

The following table summarizes activity in notes payable, net, during the year ended June 30, 2025, in thousands:

	June 30, 2024	Decreases	June 30, 2025		
			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.	\$ 652	\$ (103)	\$ 549	\$ 109	\$ 440
	652	<u>\$ (103)</u>	549	<u>\$ 109</u>	<u>\$ 440</u>
Less: current portion	<u>104</u>		<u>109</u>		
Notes payable, net of current portion	<u>\$ 548</u>		<u>\$ 440</u>		

The following table summarizes activity in notes payable, net, during the year ended June 30, 2024, in thousands:

	June 30, 2023	Decreases	June 30, 2024		
			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.	\$ 755	\$ (103)	\$ 652	\$ 104	\$ 548
	755	<u>\$ (103)</u>	652	<u>\$ 104</u>	<u>\$ 548</u>
Less: current portion	<u>101</u>		<u>104</u>		
Notes payable, net of current portion	<u>\$ 654</u>		<u>\$ 548</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.

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Notes to Consolidated Financial Statements

Future debt service payments for each of the five fiscal years subsequent to June 30, 2025, and thereafter are as follows, in thousands:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 109	\$ 20	\$ 129
2027	114	16	130
2028	118	11	129
2029	123	6	129
2030	85	1	86
Total	<u>\$ 549</u>	<u>\$ 54</u>	<u>\$ 603</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 ten years and may receive early retirement benefits at age 50 with 15 years of service. Normal retirement is at age 65 with at least ten 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 PEPRA, 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.

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.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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 ten 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 GAAP 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 GAAP 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.

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.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

SVHMC's net pension asset was reported as of June 30, 2025 and 2024, as determined by an actuarial valuation measured as of December 31, 2024 and 2023, rolled forward to June 30, 2025 and 2024, 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 \$12.6 million and \$11.3 million for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, actual contributions were \$12.6 million and \$11.3 million, respectively, representing excesses of \$0 for both years.

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, 2025	January 1, 2024
Active	1,423	1,372
Inactive	253	220
Retired and beneficiaries	862	820
Vested terminated	416	423
	<hr/>	<hr/>
Total participants	<u>2,954</u>	<u>2,835</u>

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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, 2025	June 30, 2024
Deferred outflows – actuarial		
Difference between expected and actual experience	\$ 1,720	\$ 2,384
Changes in assumptions	688	7,393
Net difference between projected and actual earnings on pension plan investments	45,929	68,893
Contribution to the pension plan after measurement date	6,371	6,232
Total	<u>\$ 54,708</u>	<u>\$ 84,902</u>
Deferred inflows – actuarial		
Difference between expected and actual experience	\$ 2,925	\$ 4,634
Changes in assumptions	7,111	7,979
Net difference between projected and actual earnings on pension plan investments	52,804	41,587
Additional pension expense recognition	14,667	15,333
Total	<u>\$ 77,507</u>	<u>\$ 69,533</u>

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

Years Ending June 30,

2026	\$ (2,161)
2027	(1,528)
2028	(17,318)
2029	(7,174)
2030	(336)
Thereafter	(653)
	<u>\$ (29,170)</u>

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

The following table summarizes changes in pension liability for fiscal years ended June 30, 2025 and 2024, with a measurement date of January 1, 2025 and 2024, respectively, in thousands:

	2025	2024
Total pension liability		
Service cost	\$ 10,868	\$ 10,277
Interest on total pension liability	31,123	29,843
Difference between expected and actual experience	(1,045)	152
Changes of assumptions	(1,757)	-
Benefit payments	(22,563)	(19,767)
Net change in total pension liability	16,626	20,505
Total pension liability, beginning of year	479,236	458,731
Total pension liability, end of year	\$ 495,862	\$ 479,236

The following table summarizes the net pension liability at June 30, 2025 and 2024, as well as other required disclosures of financial measures, in thousands:

	2025	2024
Total pension liability	\$ 495,862	\$ 479,236
Plan fiduciary net position	(515,636)	(459,539)
Net pension (asset) liability	\$ (19,774)	\$ 19,697
Plan fiduciary net position as a percentage of the total pension (asset) liability	103.99%	95.89%
Covered-employee payroll	\$ 154,690	\$ 151,837
Plan net pension (asset) liability as of a percentage of covered-employee payroll	(-12.78%)	12.97%

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2025 and 2024:

<u>Valuation date</u>	Actuarially determined contributions are calculated as of January 1, the first day of the fiscal year in which the contributions are reported
<u>Methods and assumptions used</u>	
Actuarial cost method	Entry age normal
Inflation	2.25%
Salary increases	6.50% or 3.00% depending on affiliation, 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-2016 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 (asset) liability at June 30, 2025 and 2024, in thousands:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
June 30, 2025	\$ 44,077	\$ (19,774)	\$ (73,136)
June 30, 2024	\$ 82,388	\$ 19,697	\$ (32,612)

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, 2025 and 2024, SVHMC contributed \$132 thousand and \$258 thousand, respectively, to fund benefits.

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

	2025	2024
Active employees	1,250	1,250
Retirees receiving benefits	87	87
Total plan participants	1,337	1,337

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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:

	2025	2024
Service cost	\$ 160	\$ 144
Interest	156	164
Differences between expected and actual experience	(78)	(47)
Changes of assumptions	(33)	(29)
Total post-retirement medical benefits expense	<u>\$ 205</u>	<u>\$ 232</u>

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

	2025	2024
Deferred outflows of resources as of June 30		
Difference between expected and actual experience	\$ 303	\$ 343
Changes in assumptions	428	489
Total	<u>\$ 731</u>	<u>\$ 832</u>
Deferred inflows of resources as of June 30		
Difference between expected and actual experience	\$ 1,150	\$ 841
Changes in assumptions	738	792
Total	<u>\$ 1,888</u>	<u>\$ 1,633</u>

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:

Years Ending June 30,

2026	\$ (111)
2027	(111)
2028	(111)
2029	(111)
2030	(111)
Thereafter	<u>(602)</u>
	<u>\$ (1,157)</u>

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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, 2025 and 2024, with a measurement date of June 30, 2024 and 2023, respectively, in thousands:

	2025	2024
Service cost	\$ 160	\$ 144
Interest	156	164
Differences between expected and actual experience	(440)	11
Changes in assumptions	(52)	98
Contributions – employer	(132)	(258)
Net change	(308)	159
Net post-retirement medical benefits liability, beginning of year	4,160	4,001
Net post-retirement medical benefits liability, end of year	\$ 3,852	\$ 4,160

The following table summarizes the actuarial assumptions used to determine net post-retirement medical benefits liability as of June 30, 2025 and 2024:

Valuation Date	June 30, 2023
Actuarial cost method	Entry Age Normal
Asset valuation method	Not applicable
Actuarial assumptions	
Compensation increases	3.25%
(needed for the Entry Age	
Normal cost method)	
Mortality	Base table: PubG-2016; Mortality Improvement Scale – MP-2021
Discount rate	3.93%
Healthcare cost trend rates	6.25% for 2025, graded to 5.50% for year 2028 and beyond for ages pre-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, 2025 and 2024, in thousands:

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2025	\$ 4,078	\$ 3,852	\$ 3,636
June 30, 2024	\$ 4,391	\$ 4,160	\$ 3,938

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

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, 2025 and 2024, in thousands:

	1% Decrease	Current Cost Trend Rate	1% Increase
June 30, 2025	\$ 3,807	\$ 3,852	\$ 3,891
June 30, 2024	\$ 4,110	\$ 4,160	\$ 4,204

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.

Effective July 1, 2024, SVH retroactively adopted GASB Statement No. 101, *Compensated Absences*, to establish a unified model for recognizing and measuring the liability for employee leave, such as vacation and sick leave, that is attributable to services rendered, accumulates, and is more likely than not to be used or settled. The liability is generally measured using the employee's pay rate as of the consolidated financial statement date and includes directly and incrementally associated salary-related payments. This change in accounting policy resulted in a restatement of beginning net position as of July 1, 2023, of \$17.4 million and a gain on benefits recorded for the fiscal year ended June 30, 2024, of \$0.5 million. The disclosure of the compensated absences liability in the footnotes shows the net change during the period, with SVH no longer disclosing gross changes or the funds typically used for liquidation. See Note 17 for restatement footnote.

The following is a summary of changes in compensated absences transactions, as included in accrued expenses in the consolidated statements of net position, for the years ended June 30 (in thousands):

	Beginning Balance	Net change	Ending Balance	Current Portion
2025	\$ 37,350	\$ 1,835	\$ 39,185	\$ 39,185
2024	\$ 38,941	\$ (1,591)	\$ 37,350	\$ 37,350

Note 13 – Leases

As discussed in Note 2, SVH recognizes ROU 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.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

SVH is a lessee for various noncancelable leases of office space and equipment with lease terms through 2031. During the years ended June 30, 2025 and 2024, 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, 2025 and 2024. SVH incurred no termination penalties during the years ended June 30, 2025 and 2024.

The following tables summarize ROU asset activity during the years ended June 30, 2025 and 2024, in thousands:

June 30, 2025	Beginning Balance	Increases	Decreases	Ending Balance
Right-of-use assets	\$ 32,301	\$ 6,204	\$ (293)	\$ 38,212
Less accumulated amortization	(18,301)	(4,524)	-	(22,825)
Right-of-use assets, net	<u>\$ 14,000</u>	<u>\$ 1,680</u>	<u>\$ (293)</u>	<u>\$ 15,387</u>
June 30, 2024	Beginning Balance	Increases	Decreases	Ending Balance
Right-of-use assets	\$ 26,643	\$ 5,905	\$ (247)	\$ 32,301
Less accumulated amortization	(12,720)	(4,497)	(1,084)	(18,301)
Right-of-use assets, net	<u>\$ 13,923</u>	<u>\$ 1,408</u>	<u>\$ (1,331)</u>	<u>\$ 14,000</u>

During the years ended June 30, 2025 and 2024, SVH recognized \$4,524 thousand and \$4,497 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, 2025 and 2024, in thousands:

Year Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2025	\$ 15,515	\$ 5,811	\$ (4,834)	\$ 16,492	\$ 4,694
2024	\$ 15,117	\$ 6,133	\$ (5,735)	\$ 15,515	\$ 4,336

SVH's future principal and interest lease payments under lease agreements as of June 30, 2025, were as follows, in thousands:

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

Years Ending June 30,	Principal	Interest	Total
2026	\$ 4,694	\$ 712	\$ 5,406
2027	4,258	497	4,755
2028	3,041	308	3,349
2029	2,346	164	2,510
2030	1,832	59	1,891
2031-2035	321	49	370
Total	<u>\$ 16,492</u>	<u>\$ 1,789</u>	<u>\$ 18,281</u>

SVH evaluated the ROU assets for impairment and determined no impairment occurred during the years ended June 30, 2025 and 2024.

SVH is also a lessor for noncancelable leases of office space with lease terms through 2026. For the years ended June 30, 2025 and 2024, SVH recognized \$1,401 thousand and \$1,106 thousand, respectively, in lease revenue released from the deferred inflows of resources related to the office lease included in other revenue within the consolidated statements 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, 2025 and 2024.

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 2030. During the years ended June 30, 2025 and 2024, total payments under SBITAs were \$5.1 million and \$6.1 million, respectively. Additionally, the SVH incurred no variable SBITA expenses during the years ended June 30, 2025 and 2024.

The following tables summarize subscription asset activity during the years ended June 30, 2025 and 2024, in thousands:

June 30, 2025	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	\$ 24,616	\$ 3,235	\$ (279)	\$ 27,572
Less accumulated amortization	(14,409)	(5,382)	279	(19,512)
Subscription assets, net	<u>\$ 10,207</u>	<u>\$ (2,147)</u>	<u>\$ -</u>	<u>\$ 8,060</u>
June 30, 2024	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	\$ 20,280	\$ 5,086	\$ (750)	\$ 24,616
Less accumulated amortization	(9,525)	(5,171)	287	(14,409)
Subscription assets, net	<u>\$ 10,755</u>	<u>\$ (85)</u>	<u>\$ (463)</u>	<u>\$ 10,207</u>

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

The following table summarizes subscription liability activity during the years ended June 30, 2025 and 2024, in thousands:

<u>Year Ended June 30,</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2025	\$ 7,689	\$ 3,235	\$ (5,268)	\$ 5,656	\$ 2,780
2024	\$ 10,346	\$ 5,086	\$ (7,743)	\$ 7,689	\$ 4,228

SVH's future principal and interest payments under SBITAs as of June 30, 2025, were as follows, in thousands:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 2,780	\$ 320	\$ 3,100
2027	1,334	205	1,539
2028	1,054	115	1,169
2029	488	43	531
2030	-	-	-
Total	<u>\$ 5,656</u>	<u>\$ 683</u>	<u>\$ 6,339</u>

SVH evaluated the SBITAs for impairment and determined no impairment occurred during the years ended June 30, 2025 and 2024.

Note 15 – 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

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 16 – 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.

Note 17 – Restatement

The adoption of GASB 101 resulted in adjustments to the prior period consolidated financial statements as follows at June 30, 2024:

	<u>As previously presented</u>	<u>Adjustment</u>	<u>As restated</u>
Statement of net position			
Liabilities, deferred inflows, and net position:			
Accrued expenses	\$ 70,179	\$ 16,894	\$ 87,073
Net position, end of year	\$ 1,016,210	\$ (16,894)	\$ 999,316
Statements of revenues, expenses and changes in net position:			
Compensated absences	\$ 40,407	\$ (584)	\$ 39,823
Income from operations	\$ 28,452	\$ 584	\$ 29,036
Increase in net position	\$ 78,723	\$ 584	\$ 79,307

Supplementary Information

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Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position
June 30, 2025
(in Thousands)

	SVHMC/SVHC	Central Coast Medical Service Organization	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
ASSETS AND DEFERRED OUTFLOWS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 305,975	\$ 4,230	\$ 2,643	\$ -	\$ -	\$ 312,848
Patient accounts receivable, net of estimated uncollectibles of \$65,015	147,363	1,436	-	-	-	148,799
Short-term investments	142,779	-	-	-	-	142,779
Supplies inventory	8,202	155	-	-	-	8,357
Lease receivable, current portion	436	-	-	-	-	436
Other current assets	38,217	1,204	2	-	(23)	39,400
Total current assets	642,972	7,025	2,645	-	(23)	652,619
BOARD-DESIGNATED FUNDS	176,241	-	-	-	-	176,241
CAPITAL ASSETS						
Nondepreciable	39,644	1,191	-	-	-	40,835
Depreciable, net	211,509	2,795	-	888	-	215,192
Total capital assets, net	251,153	3,986	-	888	-	256,027
OTHER ASSETS						
Right-of-use assets, net of amortization	12,467	2,920	-	-	-	15,387
Subscription assets, net of amortization	8,060	-	-	-	-	8,060
Lease receivable, net of current portion	2,041	-	-	-	-	2,041
Long-term investments	129,066	-	19,351	-	-	148,417
Investments in affiliates	24,072	-	-	-	(8,896)	15,176
Net pension asset	19,774	-	-	-	-	19,774
Other long-term assets	-	1,086	517	-	-	1,603
Total other assets	195,480	4,006	19,868	-	(8,896)	210,458
Total assets	1,265,846	15,017	22,513	888	(8,919)	1,295,345
DEFERRED OUTFLOWS - ACTUARIAL	55,439	-	-	-	-	55,439
DEFERRED OUTFLOWS - GOODWILL	638	-	-	-	-	638
Total deferred outflows	56,077	-	-	-	-	56,077
Total assets and deferred outflows	\$ 1,321,923	\$ 15,017	\$ 22,513	\$ 888	\$ (8,919)	\$ 1,351,422

See report of independent auditors.

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position
June 30, 2025
(in Thousands)

	SVHMC/SVHC	Central Coast Medical Service Organization	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (DEFICIT)						
CURRENT LIABILITIES						
Notes payable, current portion	\$ -	\$ 132	\$ -	\$ -	\$ (23)	\$ 109
Accounts payable	18,021	189	125	-	-	18,335
Accrued expenses	84,346	2,550	14	-	-	86,910
Estimated third-party payor settlements	4,491	-	-	-	-	4,491
Lease liabilities, current portion	3,890	804	-	-	-	4,694
Subscription liabilities, current portion	2,780	-	-	-	-	2,780
Self-insurance liabilities, current portion	16,734	-	-	-	-	16,734
Total current liabilities	130,262	3,675	139	-	(23)	134,053
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	3,852	-	-	-	-	3,852
NOTES PAYABLE, net of current portion	-	440	-	-	-	440
LEASE LIABILITIES, net of current portion	8,929	2,869	-	-	-	11,798
SUBSCRIPTION LIABILITIES, net of current portion	2,876	-	-	-	-	2,876
SELF-INSURANCE LIABILITIES, net of current portion	11,656	-	-	-	-	11,656
Total liabilities	157,575	6,984	139	-	(23)	164,675
DEFERRED INFLOWS - ACTUARIAL	79,395	-	-	-	-	79,395
DEFERRED INFLOWS - LEASES	2,441	-	-	-	-	2,441
Total deferred inflows	81,836	-	-	-	-	81,836
Total liabilities and deferred inflows	239,411	6,984	139	-	(23)	246,511
NET POSITION (DEFICIT)						
Invested in capital assets, net of related debt	253,205	2,661	-	888	23	256,777
Reserved for minority interest	-	-	-	-	(8,929)	(8,929)
Restricted - expendable	-	-	3,940	-	-	3,940
Restricted - nonexpendable	-	-	1,232	-	-	1,232
Unrestricted	829,307	5,372	17,202	-	10	851,891
Total net position (deficit)	1,082,512	8,033	22,374	888	(8,896)	1,104,911
Total liabilities, deferred inflows, and net position (deficit)	\$ 1,321,923	\$ 15,017	\$ 22,513	\$ 888	\$ (8,919)	\$ 1,351,422

See report of independent auditors.

Salinas Valley Memorial Healthcare System
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2025
(in Thousands)

	SVHMC/SVHC	Central Coast Medical Service Organization	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
OPERATING REVENUES						
Net patient service revenues	\$ 782,168	\$ 25,430	\$ -	\$ 7,037	\$ -	\$ 814,635
Other revenues	31,719	-	-	-	-	31,719
Total operating revenues	813,887	25,430	-	7,037	-	846,354
OPERATING EXPENSES						
Salaries and wages	242,458	11,235	-	4,671	-	258,364
Compensated absences	40,730	1,132	-	929	-	42,791
Employee benefits	102,197	1,994	-	1,862	-	106,053
Supplies	118,211	1,788	-	466	-	120,465
Purchased services	66,597	868	1,680	146	(1,680)	67,611
Medical fees	86,838	3,861	-	2,901	-	93,600
Other fees	40,130	1,289	-	78	-	41,497
Depreciation and amortization	35,438	1,507	-	335	-	37,280
Other expenses	24,148	1,920	2,870	128	(2,022)	27,044
Total operating expenses	756,747	25,594	4,550	11,516	(3,702)	794,705
Operating income (loss)	57,140	(164)	(4,550)	(4,479)	3,702	51,649
NONOPERATING REVENUES AND EXPENSES						
Grants and contributions	9,027	-	3,702	-	(3,702)	9,027
Property tax revenue	6,384	-	-	-	-	6,384
Investment income, net	40,699	14	2,087	-	-	42,800
(Provision for) reversal of credit losses	(14,045)	427	-	-	-	(13,618)
(Loss) gain on disposal of capital assets	(36)	152	-	-	-	116
Income from investments in affiliates	802	-	-	-	1,688	2,490
Other	4,216	218	(23)	-	194	4,605
Nonoperating (loss) income, net	47,047	811	5,766	-	(1,820)	51,804
Income (loss) before minority interest	104,187	647	1,216	(4,479)	1,882	103,453
CAPITAL TRANSFERS	-	(1,050)	-	4,754	(3,704)	-
MINORITY INTEREST IN NET INCOME OF CONSOLIDATED AFFILIATES	-	-	-	-	2,142	2,142
INCREASE (DECREASE) IN NET POSITION	104,187	(403)	1,216	275	320	105,595
NET POSITION (DEFICIT), beginning of year, as previously reported	995,219	8,436	21,158	613	(9,216)	1,016,210
Cumulative effect of restatement	(16,894)	-	-	-	-	(16,894)
NET POSITION (DEFICIT), beginning of year, as restated	978,325	8,436	21,158	613	(9,216)	999,316
NET POSITION (DEFICIT), end of year	\$ 1,082,512	\$ 8,033	\$ 22,374	\$ 888	\$ (8,896)	\$ 1,104,911

See report of independent auditors.

Salinas Valley Memorial Healthcare System
Supplementary Schedule of Community Benefit (Unaudited)
Year Ended June 30, 2025

SVH maintains records to identify and monitor the level of direct community benefit it provides. These records include the charges forgone for providing the patient care furnished under its charity care policy. For the years ended June 30, 2025 and 2024, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows, in thousands:

	2025	2024
Unpaid costs of Medi-Cal programs	\$ 154,012	\$ 143,211
Indigent charity care and bad debt	13,092	11,362
	<u>\$ 167,104</u>	<u>\$ 154,573</u>

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 \$197.7 million and \$188.7 million for the years ended June 30, 2025 and 2024, 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 years ended June 30, 2025 and 2024, these volunteers contributed approximately 20,574 and 15,179 hours, respectively, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.

Required Supplementary Information

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Salinas Valley Memorial Healthcare System
Supplementary Pension and Post Employment Benefit Information
June 30, 2025 and 2024
(in Thousands)

Defined Benefit Pension Plan

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

	2025	2024
Number of active members	1,423	1,372
Number of frozen active participants	253	220
Number of retired members and beneficiaries	862	820
Number of vested terminated members	416	423
	2,954	2,835

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, 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%
December 31, 2023	\$ 11,270	\$ 11,270	\$ -	\$ 151,837	7.42%
December 31, 2024	\$ 12,603	\$ 12,603	\$ -	\$ 154,690	8.15%

Supplemental post-retirement benefit information – As of June 30, 2025 and 2024, post-retirement medical benefits plan's fiduciary net position as a percentage of the total OPEB liability is 0% for both years.

The covered payroll for the active population eligible to participate in the post-retirement medical benefits plan is \$154.7 million and \$151.8 million for 2025 and 2024, respectively. The net post-retirement medical benefits asset for the fiscal year ended June 30, 2025 is \$19.8 million. The net post-retirement medical liability for the fiscal year ended June 30, 2024, is \$19.7 million. The net post-retirement medical benefits asset and liability as a percentage of covered-employee payroll, as of the same time period, was -12.78% and 12.97%, respectively.

Reports of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Salinas Valley Memorial Healthcare System

June 30, 2025 and 2024

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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, 2025 and 2024, and the related notes to the consolidated financial statements, which collectively comprise the System's consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated 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, 2025 and 2024, 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) and the California Code of Regulations, Title 2, Section 1131.2, State Controller's Minimum Audit Requirements for California Special Systems. For the year ended June 30, 2025, we also conducted our audit in accordance with 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated 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 consolidated 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 consolidated 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 and 17 to the consolidated financial statements, effective July 1, 2024, the System adopted GASB Statement No. 101, *Compensated Absences*, requiring retroactive application.

Accordingly, the fiscal year 2024 consolidated financial statements have been restated to apply this new accounting standard. Our opinion on the consolidated financial statements 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 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 accompanying 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 **November 21, 2025**, 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

November 21 2025

Salinas Valley Memorial Healthcare System
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

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 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	OR-4482DR-3314 (2945)	108,404
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3315 (2767)	310,899
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3503 (0703)	635,880
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3414 (1279)	441,915
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3418 (1414)	722,530
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-2689 (1761)	102,144
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3317 (2559)	464,799
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3641 (3242)	1,544,352
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3558 (2995)	207,935
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3632 (3374)	142,248
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-3328 (3255)	414,199
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OR-4482DR-2946 (3223)	61,215
<i>Total U.S. Department of Homeland Security</i>			<u>5,156,520</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 5,156,520</u>

See accompanying notes to schedule of expenditures of federal awards.

Salinas Valley Memorial Healthcare System
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

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, 2025. The information in the Schedule is presented in accordance with the requirements of the 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).

The Schedule includes \$5,156,520 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, 2025, and relate to expenditures that were incurred during the years ended June 30, 2023, 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, 2025.

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Required Supplementary Information

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 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, 2025, 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 21, 2025.**

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 consolidated 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 consolidated 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 21, 2025

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Salinas Valley Memorial Healthcare System

Report on Compliance for the Major Federal Program

Opinion on the 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 the Salinas Valley Memorial Healthcare System's major federal program for the year ended June 30, 2025. Salinas Valley Memorial Healthcare System's major federal program is 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 the major federal program for the year ended June 30, 2025.

Basis for Opinion on the 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 program.

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 the 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Salinas Valley Memorial Healthcare System as of and for the year ended June 30, 2025, and have issued our report thereon dated _____, 2025, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

San Francisco, California

December XX, 2025

Salinas Valley Memorial Healthcare System
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2025

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?
- Significant deficiency(ies) identified?

☐ Yes ☒ No
☐ Yes ☒ None reported
☐ Yes ☒ No

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

☐ Yes ☒ No
☐ Yes ☒ None reported
☐ Yes ☒ No

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

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

<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>
97.036	COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Unmodified

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.

Communications with the Board of Directors

Salinas Valley Memorial Healthcare System

June 30, 2025

Communications with the Board of Directors

The Board of Directors
Salinas Valley Memorial Healthcare System

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 year ended June 30, 2025, and have issued our report thereon dated November 21, 2025. 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 and Government Auditing Standards

As stated in our engagement letter dated December 12, 2024, 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. 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 (GAS), and 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 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.

The supplementary information was subject to 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.

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 12, 2024 and during our planning meeting with you on June 18, 2025.

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 2025, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 101, *Compensated Absences*. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2025. 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 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. 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 discount rate and the health care cost trend 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, and 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.
- Management's estimates of the probability of accumulated leave being used or settled and the timing of those payments for sick leave accrual. We have gained an understanding of management's key factors and assumptions and have 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 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.

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 (U.S. GAAS), Government Auditing Standards (GAS), and the California Code of Regulations, Title 2 Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. 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 21, 2025**.

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 21, 2025



Salinas Valley Memorial Healthcare District Employees Pension Plan

2024 Audit Results

Report to Corporate Compliance and Audit Committee

November 12, 2025

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Scope of Services

We performed the following services for Salinas Valley Memorial Healthcare District Employees Pension Plan:

Annual Audit

- Audit report on the financial statements for the year ended December 31, 2024
- Report will be dated following management and committee approval
- Unmodified opinion: financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America

Non-Attestation Service

- Baker Tilly assisted management with drafting the Plan's financial statements and required supplementary information

Pension Financial Highlights

	2022	2023	2024
Total pension liability (a)	\$ 458,730,891	\$ 479,235,862	\$ 495,862,717
Plan fiduciary net position			
Employer contributions	\$ 61,579,392	\$ 11,269,905	\$ 12,602,713
Member contributions	2,577,706	2,506,514	2,800,377
Net investment income (loss)	(83,884,411)	61,892,945	63,371,929
Administrative expense	(92,272)	(83,035)	(113,752)
Benefit payments	(18,835,673)	(19,767,150)	(22,563,484)
Net change in plan fiduciary net position	(38,655,258)	55,819,179	56,097,783
Plan fiduciary net position			
Beginning of year	442,374,774	403,719,516	459,538,695
End of year (b)	\$ 403,719,516	\$ 459,538,695	\$ 515,636,478
System net pension liability (asset) (a) - (b)	\$ 55,011,375	\$ 19,697,167	\$ (19,773,761)
Funded status (GASB basis)	88.0%	95.9%	104.0%

Areas of Audit Emphasis

Our audit of the pension plan included the following areas of emphasis:

Audit emphasis areas	Procedures
Existence and valuation of investments and investment earnings	<ul style="list-style-type: none">• Tested due diligence, ongoing monitoring and financial close controls• Confirmed with investment custodian and tested investment valuation, trading, and earnings
Actuarial valuation assumptions, GASB No. 67 measurements, and underlying census data	<ul style="list-style-type: none">• Tested completeness and accuracy of census data used• Verified assumptions used in the valuation and measurements including changes in assumptions
Management override of controls	<ul style="list-style-type: none">• Tested significant transaction cycles and the financial close process with consideration of potential management override of internal controls



Required Communications with Audit Committee

- Plan descriptions and significant accounting policies are summarized in footnotes to the financial statements
- The financial statement disclosures are consistent, clear, and understandable
- No material weaknesses reported
- No proposed adjusting entries or uncorrected misstatements noted
- Written and oral representations to be received from management
- No disagreements with management
- New accounting standards were adopted (GASB Statement No. 101 and 102) No impact on the Plan's financial statements.



Required Communications with Audit Committee, continued

- Consultation with other independent auditors (none of which we are aware)
- No difficulties encountered during the audit
- Illegal acts (none noted)
- Consideration of fraud in a financial statement audit
 - Procedures performed included journal entry testing and interviews of personnel
- Baker Tilly is independent with respect to the Plan and its sponsoring employer



Your Service Team



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The background of the slide features a series of concentric circles in various shades of gray, creating a subtle, abstract pattern on the right side.

**THANK
YOU**

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Report of Independent Auditors and
Financial Statements with
Required Supplementary Information

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

December 31, 2024 and 2023

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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, 2024 and 2023. This section also includes selected comparative information as of and for the year ended December 31, 2022. 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, 2024, the net position held in trust for pension benefits increased by approximately 12%. Employer contributions were \$12.6 million in 2024 compared to \$11.3 million in 2023 and \$61.6 million in 2022. Benefit payments were \$22.7 million during 2024 compared to \$20.0 million during 2023 and \$19.0 million in 2022. Net investment income was \$63.5 million during 2024 compared to \$62.1 million during 2023 and a net investment loss of \$83.7 million in 2022.

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, 2024, the System's Board of Directors approved and funded employer contributions totaling \$12,602,713 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 (asset) liability 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. The following presents a comparison of the components of the net position (asset) liability as of December 31:

	2024	2023	2022
Total pension liability	\$ 495,862,717	\$ 479,235,862	\$ 458,730,891
Plan fiduciary net position	(515,636,478)	(459,538,695)	(403,719,516)
System's net pension (asset) liability	\$ (19,773,761)	\$ 19,697,167	\$ 55,011,375
System's fiduciary net position as a percentage of total pension liability	103.99%	95.89%	88.01%

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.

Salinas Valley Memorial Healthcare District

Employees Pension Plan

Management's Discussion and Analysis

The following are abbreviated statements of fiduciary net position (in thousands) as of December 31:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Cash and investments	<u>\$ 515,636</u>	<u>\$ 459,539</u>	<u>\$ 403,720</u>

During the years ended December 31, 2024 and 2023, the Plan's fiduciary net position increased by 12% and 14%, 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) for the years ended December 31:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Investment income (loss), net	\$ 63,512	\$ 62,101	\$ (83,746)
Employer contributions	12,603	11,270	61,579
Member contributions	2,800	2,507	2,578
Benefit payments to members and beneficiaries	(22,704)	(19,962)	(18,961)
Administrative expenses	<u>(114)</u>	<u>(96)</u>	<u>(106)</u>
Change in fiduciary net position	<u>\$ 56,097</u>	<u>\$ 55,820</u>	<u>\$ (38,656)</u>

The change in fiduciary net position during the years ended December 31, 2024, 2023 and 2022 is due primarily to the employer contributions made each year and the investment income (loss) 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.

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Financial Statements

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Salinas Valley Memorial Healthcare District
Employees Pension Plan
Statements of Fiduciary Net Position
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Investments, at fair value		
Mutual funds	<u>\$ 515,636,478</u>	<u>\$ 459,538,695</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 515,636,478</u></u>	<u><u>\$ 459,538,695</u></u>

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, 2024 and 2023

	2024	2023
ADDITIONS		
Investment income		
Net appreciation in fair value of investments	\$ 51,590,893	\$ 50,748,380
Dividends	11,921,449	11,352,580
Total investment income	<u>63,512,342</u>	<u>62,100,960</u>
Contributions		
Employer	12,602,713	11,269,905
Members	2,800,377	2,506,514
Total contributions	<u>15,403,090</u>	<u>13,776,419</u>
Net additions	<u>78,915,432</u>	<u>75,877,379</u>
DEDUCTIONS		
Benefit payments	22,703,897	19,961,806
Administrative expenses	113,752	96,394
Total deductions	<u>22,817,649</u>	<u>20,058,200</u>
CHANGE IN NET POSITION	56,097,783	55,819,179
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	<u>459,538,695</u>	<u>403,719,516</u>
End of the year	<u>\$ 515,636,478</u>	<u>\$ 459,538,695</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,	
	2024	2023
Active members		
Number of active members under and over the normal retirement age	1,423	1,372
Nonactive members and other beneficiaries receiving benefits		
Number of retirees and beneficiaries	862	816
Number terminated with vested benefits	416	423
Inactive members	253	220
	<u>2,954</u>	<u>2,831</u>

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 total pension 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 in fair value of investments consists of both the realized gains and losses and unrealized appreciation and depreciation of those investments.

Salinas Valley Memorial Healthcare District

Employees Pension Plan

Notes to Financial Statements

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 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:

	2024		2023	
	Fair Value	%	Fair Value	%
Mutual funds				
Domestic equity	\$ 323,289,315	63%	\$ 200,330,828	44%
Fixed income	166,166,784	32%	133,074,347	29%
Real estate fund	26,180,379	5%	24,513,705	5%
International equity	-	0%	101,619,815	22%
	<u>\$ 515,636,478</u>	<u>100%</u>	<u>\$ 459,538,695</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, 2024 or 2023.

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, 2024		Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 349,469,694	\$ 349,469,694	\$ -	\$ -
Fixed income	166,166,784	166,166,784	-	-
	<u>\$ 515,636,478</u>	<u>\$ 515,636,478</u>	<u>\$ -</u>	<u>\$ -</u>

		Fair Value Measurements		
December 31, 2023		Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 326,464,348	\$ 326,464,348	\$ -	\$ -
Fixed income	133,074,347	133,074,347	-	-
	<u>\$ 459,538,695</u>	<u>\$ 459,538,695</u>	<u>\$ -</u>	<u>\$ -</u>

Salinas Valley Memorial Healthcare District

Employees Pension Plan

Notes to Financial Statements

Annual Money-weighted rate of return – During the years ended December 31, 2024 and 2023, the annual money-weighted rate of return on the Plan's investments, net of investment expenses, was 13.90% and 15.45%, respectively. The annual 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 factors including 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 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, 2024 and 2023, 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, 2024 and 2023, 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 \$12,601,903 and \$11,269,905 for the years ended December 31, 2024 and 2023, respectively, and contributed to the Plan as directed and approved by the Board of Directors.

Note 5 – System Net Pension Liability

The components of the net pension liability of the System were as follows as of December 31:

	2024	2023
Total pension liability	\$ 495,862,717	\$ 479,235,862
Plan fiduciary net position	<u>(515,636,478)</u>	<u>(459,538,695)</u>
System net pension (asset) liability	<u>\$ (19,773,761)</u>	<u>\$ 19,697,167</u>
Plan fiduciary net position as a percentage of total pension liability (funded status)	103.99%	95.89%

Note 6 – Actuarial Methods and Significant Assumptions

The total pension liability was determined as part of actuarial valuations as of December 31, 2024 and 2023, 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-2016 Generational Mortality Tables projected using MP-2021 and the Pub-G-2010 Generational Mortality Tables projected using MP-2021 as of December 31, 2024 and 2023, respectively. 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, 2024 and 2023, 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	
	2024	2023
Domestic equity		
U.S. large cap equity	6.8%	8.0%
U.S. mid cap equity	7.1%	N/A
U.S. small cap equity	7.6%	9.0%
International		
Equity	7.3%	8.0%
Emerging market equity	8.0%	9.0%
Alternative		
Real estate investment trust	5.8%	8.0%
Commodities	5.3%	5.0%
Money market	N/A	2.0%
Private equity	9.3%	N/A
Private credit	8.5%	N/A
Fixed income		
High yield bonds	6.2%	6.5%
Core bonds	N/A	4.0%
Long-term corporate bonds	N/A	6.0%
Short-term bonds	N/A	2.5%
Treasury bonds	4.3%	N/A
US agg	4.5%	N/A
US TIPS	4.3%	N/A
Global ex US	4.0%	N/A
Emerging markets	6.3%	N/A

Discount rate – As of December 31, 2024 and 2023, 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:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
System net pension liability	<u>\$ 44,076,609</u>	<u>\$ (19,773,761)</u>	<u>\$ (73,135,684)</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.

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Required Supplementary Information

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Salinas Valley Memorial Healthcare District

Employees Pension Plan

Schedules of Changes in Employer Net Pension (Asset) Liability and Related Ratios

	Year Ended December 31,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 10,867,968	\$ 10,276,815	\$ 10,507,936	\$ 9,971,347	\$ 9,739,474	\$ 8,353,779	\$ 8,078,739	\$ 7,171,959	\$ 7,005,009	\$ 7,743,929
Interest on total pension liability	31,123,436	29,843,069	28,712,023	27,964,724	26,944,092	25,007,386	24,405,221	22,569,994	21,000,849	19,178,200
Change of benefit terms	-	-	-	-	(201,797)	-	-	-	-	-
Difference between expected and actual experience	(1,044,507)	152,237	(2,138,473)	4,182,887	(3,872,216)	(8,841,924)	(3,353,687)	(3,076,492)	4,487,813	(280,070)
Changes in actuarial assumptions	(1,756,558)	-	-	(13,644,957)	(1,835,817)	36,231,315	14,767,302	11,277,838	2,602,234	(1,465,873)
Benefit payments	(22,563,484)	(19,767,150)	(18,835,673)	(16,232,653)	(14,266,188)	(12,525,484)	(11,578,811)	(10,404,996)	(8,726,267)	(7,762,380)
Net change in total pension liability	16,626,855	20,504,971	18,245,813	12,241,348	16,507,548	48,225,072	32,318,764	27,538,303	26,369,638	17,413,806
Total pension liability										
Beginning of year	479,235,862	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
End of year (a)	\$ 495,862,717	\$ 479,235,862	\$ 458,730,891	\$ 440,485,078	\$ 428,243,730	\$ 411,736,182	\$ 363,511,110	\$ 331,192,346	\$ 303,654,043	\$ 277,284,405
Plan fiduciary net position										
Employer contributions	\$ 12,602,713	\$ 11,269,905	\$ 61,579,392	\$ 23,126,725	\$ 23,765,862	\$ 26,808,785	\$ 21,927,309	\$ 19,883,437	\$ 16,938,956	\$ 17,189,514
Member contributions	2,800,377	2,506,514	2,577,706	2,673,070	1,975,665	1,593,730	1,209,498	840,013	474,659	-
Net investment income (loss)	63,371,929	61,892,945	(83,884,411)	47,033,347	43,530,843	52,346,352	(13,802,482)	32,509,516	8,198,171	1,301,163
Administrative expenses	(113,752)	(83,035)	(92,272)	(111,880)	(115,720)	(115,586)	(112,397)	(109,194)	(64,788)	-
Benefit payments	(22,563,484)	(19,767,150)	(18,835,673)	(16,352,414)	(14,266,188)	(12,525,484)	(11,578,811)	(10,404,996)	(8,726,267)	(7,762,380)
Net change in plan fiduciary net position	56,097,783	55,819,179	(38,655,258)	56,368,848	54,890,462	68,107,797	(2,356,883)	42,718,776	16,820,731	10,728,297
Plan fiduciary net position										
Beginning of year	459,538,695	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
End of year (b)	\$ 515,636,478	\$ 459,538,695	\$ 403,719,516	\$ 442,374,774	\$ 386,005,926	\$ 331,115,464	\$ 263,007,667	\$ 265,364,550	\$ 222,645,774	\$ 205,825,043
Employer net pension (asset) liability (a) - (b)	\$ (19,773,761)	\$ 19,697,167	\$ 55,011,375	\$ (1,889,696)	\$ 42,237,804	\$ 80,620,718	\$ 100,503,443	\$ 65,827,796	\$ 81,008,269	\$ 71,459,362
Discount rate	6.5%	6.5%	6.5%	6.5%	6.5%	7.0%	7.5%	7.5%	7.5%	7.5%
Plan fiduciary net position as percentage of total pension liability	103.99%	95.89%	88.01%	100.43%	90.14%	80.42%	72.35%	80.12%	73.32%	74.23%
Covered payroll	\$ 154,689,696	\$ 151,837,187	\$ 142,049,836	\$ 138,819,740	\$ 127,771,097	\$ 119,260,723	\$ 112,353,126	\$ 108,395,254	\$ 95,639,978	\$ 92,759,619
Net pension (asset) liability as percentage of covered payroll	-12.78%	12.97%	38.73%	-1.36%	33.06%	67.60%	89.45%	60.73%	84.70%	77.04%

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.

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
2024	\$ 12,602,713	\$ 12,602,713	\$ -	\$ 154,689,696	8.15%
2023	11,269,905	11,269,905	-	151,837,187	7.42%
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%

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 - 2024: 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	2015 - 2017: 7.50%, net of investment expense, including inflation 2018: 7.00%, net of investment expense, including inflation 2019 - 2024: 6.50%, net of investment expense, including inflation
Retirement age	
Normal retirement	65
Early retirement	Classic participant: 50 and 15 years of vesting service New participant: 52 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 - 2023: PubG-2010 Generational Mortality Tables for Males and Females, projected using MP-2021 2024: PubG-2016 Generational Mortality Tables for Males and Females, projected using MP-2021

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

	Year Ended December 31,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expenses	13.90%	15.45%	-18.04%	12.01%	12.92%	19.53%	-5.11%	14.22%	3.74%	0.68%

CLOSED SESSION

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

*RECONVENE OPEN SESSION/
REPORT ON CLOSED SESSION*

(Meeting Chair)

*Consider Recommendation for Board of
Directors Approval of the Years Ended 2025
and 2024 Draft Audited Financial
Statements for Salinas Valley Memorial
Healthcare System*

(HUSSAIN)

*Consider Recommendation for Board of
Directors Approval of the Years Ended 2024
and 2023 Draft Audited Financial
Statements for the Salinas Valley Memorial
Healthcare District
Employee's Pension Plan*

(HUSSAIN)

ADJOURNMENT