November 5, 2026

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 11, 2026, AT 12:00 P.M., DOWNING RESOURCE CENTER, CEO CONFERENCE ROOM 117, SALINAS VALLEY HEALTH MEDICAL CENTER, 450 E. ROMIE LANE, SALINAS, CALIFORNIA.**

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

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.

CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING
COMMITTEE OF THE WHOLE
SALINAS VALLEY HEALTH[1]

WEDNESDAY, NOVEMBER 11, 2026, 12:00 P.M.
DOWNING RESOURCE CENTER, CEO CONFERENCE ROOM 117

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 17, 2026. (HERNANDEZ LAGUNA)

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

4. Consider Recommendation for Board Approval of the Years Ended 2026 and 2025 Draft Audited Financial Statements for Salinas Valley Memorial Healthcare System (HUSSAIN/KIMBERLY SOKOLOFF AND KATHERINE DJIAUW FROM BAKERTILLY)

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

[1]Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

5. Consider Recommendation for Board of Directors Approval of the Years Ended 2025 and 2024 Draft Audited Financial Statements for the Salinas Valley Memorial Healthcare District Employee's Pension Plan (HUSSAIN/KORRY HOGGAN FROM BAKERTILLY)

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

6. Adjournment

   The Corporate Compliance and Audit Committee meets quarterly. The next meeting is scheduled for Wednesday, **March 17, 2027** at 12:00 p.m.

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/2026/, 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 831-759-3208 at least forty-eight (48) hours prior to the posted time for the meeting in order to enable the District to make reasonable accommodations.

[1]Salinas 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 HEALTH[1]
CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING
COMMITTEE OF THE WHOLE
MEETING MINUTES JUNE 17, 2026

Committee Member Attendance:

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

Voting Members Absent: **Alison Wilson, D.O.,** Chief of Staff

Advisory Non-Voting Members Present:
In Person: Iftikhar Hussain, CFO, Clement Miller, COO, and Rakesh Singh, M.D., VPMSA
Via Teleconference: Alysha Hyland, CAO, Carla Spencer, CNO, and Sanjeev Tandon, Subject Matter Expert

Other Board Members Present, Constituting Committee of the Whole:
Via Teleconference: Victor Rey

1. CALL TO ORDER/ROLL CALL

A quorum was present and Chair Hernandez Laguna called the meeting to order at 12:03 p.m. at the Downing Resource Center, CEO Conference Room 117.

2. PUBLIC COMMENT: None.

3. APPROVAL OF MINUTES FROM THE CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING OF MARCH 18, 2026

Approve the minutes of the March 18, 2026 Corporate Compliance and Audit Committee meeting. The information was included in the Committee packet.

PUBLIC COMMENT: None.

MOTION:
Upon motion by Committee member Carson, second by Committee member Radner, the minutes of the March 18, 2026 Corporate Compliance and Audit Committee Meeting were approved as presented.

ROLL CALL VOTE:
Ayes: Chair Hernandez Laguna, Dr. Radner, Ray, Vice-Chair Carson;
Nays: None;
Abstentions: None;
Absent: Dr. Wilson.

Motion Carried.

4. REVIEW THE SCOPE OF AUDITS AND AUDIT PLANS FOR:

a. Salinas Valley Health's Consolidated Financial Statements
b. Defined Benefit Plan for Salinas Valley Health

[1]Salinas Valley Memorial Healthcare System operating as Salinas Valley Health

Iftikhar Hussain, Chief Financial Officer, introduced Kimberly Sokoloff and Katherine Djiauw from Baker Tilly to provide a comprehensive overview of the Salinas Valley Health 2026 Audit Planning. The presentation covered the scope of annual financial statements and pension plan audits, auditor responsibilities, key risks, timeline, and reporting deliverables. The audit will focus on significant risk areas including valuation of patient accounts receivable, revenue recognition, and management override of controls, while noting management's responsibility for financial reporting, internal controls, and fraud prevention.

The audit process will occur throughout 2026, with final reports expected in October and November. Baker Tilly also reviewed new accounting standards, particularly GASB 103, which introduces updates to financial statement presentation, Management's Discussion and Analysis (MD&A), and disclosure requirements effective for fiscal years beginning July 1, 2025. Additionally, Baker Tilly discussed the impact of emerging technologies, including AI, automation, data analytics, and cybersecurity tools, and their role in improving audit efficiency, quality, and insights while maintaining auditor oversight and professional judgement.

A full report was included in the packet.

COMMITTEE DISCUSSION: Allen Radner, M.D., President/CEO asked about the impact of GASB 103 for the FY27 budget. Kimberly explained that the primary changes will involve revenue reclassification rather than significant operational impacts. Sanjeev Tandon, Subject Matter Expert, noted that the standard will require retroactive presentation adjustments and inquired whether legal entity structure is considered as part of the review. Kimberly confirmed that legal entity structure is included in the evaluation process and will help determine appropriate reporting considerations.

The group discussed the importance of clearly distinguishing income and operating revenues, particularly related to OHCA and HCAI reporting requirements. Kimberly noted that coordination with HCAI is ongoing to refine recommendations and support education efforts related to financial statement changes.

The committee also discussed Baker Tilly's approach to artificial intelligence. Kimberly shared that AI tools are being adopted cautiously to support areas such as research, invoice review, and data entry, with emphasis on risk assessment, testing, and professional oversight. Committee members emphasized the importance of maintaining staff expertise and human judgment in financial reporting. Kimberly reiterated that AI is intended to improve efficiency and reduce administrative workload while maintaining appropriate controls and review processes.

4. ADJOURNMENT

There being no other business, the meeting adjourned at 12:42 p.m. The next Corporate Compliance & Audit Committee Meeting is scheduled for Wednesday, **September 16, 2026** at 12:00 p.m.

_____

Joel Hernandez Laguna, Chair
Corporate Compliance and Audit Committee

DRAFT
Not to be reproduced or relied upon for any purpose

Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Salinas Valley Memorial Healthcare System

June 30, 2026 and 2025

Table of Contents

DRAFT
Not to be reproduced or relied upon for any purpose

	Page
Management's Discussion and Analysis	
Management's Discussion and Analysis	1
Report of Independent Auditors	14
Consolidated Financial Statements	
Consolidated Statements of Net Position	18
Consolidated Statements of Revenues, Expenses, and Changes in Net Position	20
Consolidated Statements of Cash Flows	21
Employees' Pension Plan – Statements of Fiduciary Net Position	23
Statements of Changes in Fiduciary Net Position	24
Notes to Consolidated Financial Statements	25
Supplementary Information	
Consolidating Statement of Net Position	61
Consolidating Statement of Revenues, Expenses, and Changes in Net Position	63
Supplementary Schedule of Community Benefit (Unaudited)	65
Required Supplementary Information	
Supplementary Pension and Post Employment Benefit Information	67

Management's Discussion and Analysis

DRAFT
Not to be reproduced or relied upon for any purpose

MANAGEMENT'S DISCUSSION AND ANALYSIS

Section 1 - Overview of the Consolidated Financial Statements

Salinas Valley Memorial Healthcare System (Salinas Valley Health or SVH) is a healthcare district organized as a political subdivision of the state of California. SVH is governed by a five-member elected Board of Directors and provides healthcare services to residents of Monterey County and surrounding communities.

SVH is anchored by Salinas Valley Health Medical Center (the Hospital), a 263-bed acute care hospital located in Salinas, California. The Hospital provides a broad range of inpatient and outpatient services, including cardiovascular, orthopedic, perinatal, and oncology care. SVH also provides primary and specialty care through Salinas Valley Health Clinics and maintains relationships with other healthcare organizations to expand access to healthcare services.

DRAFT
Not to be reproduced or relied upon for any purpose

This annual report consists of the consolidated financial statements and accompanying notes. These statements present the financial position and results of operations of SVH, including its consolidated entities. Financial information for the individual entities is presented in the supplementary consolidating schedules included in this report. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes.

The consolidated statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows provide information about SVH's financial position, results of operations, and cash flows. The consolidated statements of net position report SVH's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The consolidated statements of revenues, expenses, and changes in net position report revenues and expenses for the periods presented, including operating results, noncapital subsidies, and nonoperating activities. The consolidated statements of cash flows report cash provided by and used in operating, noncapital financing, capital and related financing, and investing activities.

Effective for the year ended June 30, 2026, SVH adopted Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*. The Statement revises the presentation of operating and nonoperating revenues and expenses and requires noncapital subsidies to be reported separately following operating income. It also revises the required content and presentation of management's discussion and analysis, with an increased focus on explaining significant changes in financial position and results of operations.

As a result, certain fiscal year 2025 amounts have been reclassified to conform to the fiscal year 2026 presentation. These reclassifications did not affect previously reported total net position or the increase in net position for fiscal year 2025.

The financial report also includes the financial statements of the Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan), which are discussed separately in the fiduciary section of this management's discussion and analysis.

Section 2 - Financial Summary

Summary of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

The following table summarizes SVH's financial position as of June 30, 2026, 2025, and 2024 (in thousands):

DRAFT
Not to be reproduced or relied upon for any purpose

	As of June 30,			Change
	2026	2025	2024	2026/2025
Current assets:				
Cash and cash equivalents	$ 302,120	$ 312,848	$ 273,204	$ (10,728)
Patient accounts receivable, net	148,143	148,799	124,912	(656)
Other	73,420	190,972	151,279	(117,552)
Total current assets	523,683	652,619	549,395	(128,936)
Board-designated funds	181,149	176,241	166,414	4,908
Capital assets, net	273,680	256,027	259,854	17,653
Other assets, net	431,964	210,458	197,825	221,506
Total assets	1,410,476	1,295,345	1,173,488	115,131
Deferred outflows	41,022	56,077	86,622	(15,055)
Total assets and deferred outflows	$ 1,451,498	$ 1,351,422	$ 1,260,110	$ 100,076
Current liabilities	$ 154,168	$ 122,001	$ 137,392	$ 32,167
Noncurrent liabilities	66,141	42,674	51,124	23,467
Deferred inflows	83,321	81,836	72,278	1,485
Total liabilities and deferred inflows	303,630	246,511	260,794	57,119
Net position:				
Invested in capital assets, net	308,307	256,777	260,205	51,530
Reserved for minority interest	(10,280)	(8,929)	(6,629)	(1,351)
Restricted - expendable	2,903	3,940	4,581	(1,037)
Restricted - nonexpendable	1,271	1,232	1,268	39
Unrestricted	845,667	851,891	739,891	(6,224)
Total net position	1,147,868	1,104,911	999,316	42,957
Total liabilities, deferred inflows, and net position	$ 1,451,498	$ 1,351,422	$ 1,260,110	$ 100,076

Summary of Revenues, Expenses, and Changes in Net Position

The following table summarizes SVH's results of operations for the fiscal years ended June 30, 2026, 2025, and 2024 (in thousands):

	Year Ended June 30,			Change
	2026	2025	2024	2026/2025
			*pre-GASB 103**	
Net patient service revenues	$ 825,298	$ 814,635	$ 752,195	$ 10,663
Other revenues	42,459	31,719	22,801	10,740
Total operating revenues	867,757	846,354	774,996	21,403
Total operating expenses	(846,613)	(794,705)	(745,960)	(51,908)
Operating income	21,144	51,649	29,036	(30,505)
Noncapital subsidies	6,409	12,645	-	(6,236)
Nonoperating income (loss), net	15,404	41,301	50,271	(25,897)
Increase in net position	$ 42,957	$ 105,595	$ 79,307	$ (62,638)
Net position, beginning of year	1,104,911	999,316	920,009	105,595
Net position, end of year	$ 1,147,868	$ 1,104,911	$ 999,316	$ 42,957

**Fiscal year 2024 amounts are presented as originally reported and have not been reclassified to conform to the fiscal year 2026 presentation under GASB Statement No. 103. Accordingly, certain fiscal year 2024 classifications may not be directly comparable to fiscal years 2025 and 2026.*

DRAFT
Not to be reproduced or relied upon for any purpose

Section 3 - Detailed Analysis

Analysis of Financial Position – 2026 and 2025

Total assets increased by $115.1 million, or 8.9%, to $1.41 billion at June 30, 2026, compared with $1.30 billion at June 30, 2025.

Current assets decreased by $128.9 million, primarily reflecting a $130.5 million decrease in short-term investments as SVH shifted funds into long term bonds in response to market conditions and interest rates. Cash and cash equivalents decreased by $10.7 million, reflecting capital expenditures and costs associated with the implementation of Epic. Other current assets increased by $13.8 million, including receivables associated with the CCAH Directed Payment intergovernmental transfer program.

Board-designated funds increased by $4.9 million to $181.1 million, primarily reflecting increases in the value of investments and accrued interest as of June 30, 2026**.** Capital assets, net, increased by $17.7 million to $273.7 million, reflecting capital acquisitions partially offset by depreciation.

Other assets increased by $221.5 million, primarily due to the shift of investments into long-term securities, a $57.8 million increase in subscription assets associated with Epic and Workday, and a $29.3 million increase in the net pension asset. The increase in the net pension asset was primarily attributable to investment earnings and employer and employee contributions exceeding the increase in the pension liability, which was driven by service costs, interest, and changes in actuarial assumptions.

Total liabilities increased by $55.6 million to $220.3 million. Current liabilities increased by $32.2 million, primarily reflecting amounts associated with the intergovernmental transfer program payables, higher supplier and refund payables, increased self-insurance liabilities, and additional subscription liabilities related to Epic and Workday. The intergovernmental transfer balances resulted from timing differences between payments into the program and subsequent reimbursement receipts, including approximately $33 million in receivables and $11 million in related accrued payables at June 30, 2026. The increase in self-insurance liabilities was primarily attributable to delays in processing certain employee health claims following a transition in third-party claims administration during fiscal year 2026. The delayed claims were subsequently processed and paid during the first quarter of fiscal year 2027. Noncurrent liabilities increased by $23.5 million, primarily due to additional subscription liabilities associated with technology implementations.

Total net position increased by $43.0 million to $1.15 billion, reflecting positive operating results and investment income, partially offset by provisions for credit losses.

Analysis of Financial Position – 2025 and 2024

Total assets increased by $121.9 million in fiscal year 2025, primarily reflecting increases in marketable securities, patient accounts receivable, and the net pension asset. Total liabilities decreased by $23.9 million, while net position increased by $105.6 million to $1.10 billion.

Analysis of Revenues and Expenses – 2026 and 2025

Net Patient Service Revenue

The following table summarizes net patient service revenues by payer (in thousands):

	Year Ended June 30,			Change
	2026	2025	2024	2026/2025
Hospital operations:				
Medicare	$ 179,884	$ 184,226	$ 172,162	$ (4,342)
Commercial	359,455	357,431	333,913	2,024
Medi-Cal and CCAH	126,598	118,707	108,042	7,891
Other	25,986	32,233	26,664	(6,247)
Consolidated subsidiaries	133,375	122,038	111,414	11,337
Total net patient service revenues	$ 825,298	$ 814,635	$ 752,195	$ 10,663

DRAFT
Not to be reproduced or relied upon for any purpose

Net patient service revenues increased by $10.7 million, or 1.3%, to $825.3 million in fiscal year 2026, compared with $814.6 million in fiscal year 2025. The increase was primarily driven by an $11.3 million increase in revenues from consolidated subsidiaries and a $7.9 million increase in Medi-Cal and CCAH revenues, partially offset by decreases of $6.2 million in other hospital payer revenues and $4.3 million in Medicare revenues. Revenues from consolidated subsidiaries increased primarily due to additional providers and service lines, along with improved reimbursement resulting from changes in payer mix. The decrease in other hospital payer revenues was primarily attributable to higher contractual allowance rates for domestic claims, which increased from 55% to 82% for inpatient services and 89% for outpatient services, along with an increase in bad debt.

Patient Volume and Utilization Statistics

The following table illustrates comparable statistics (excluding newborns) for the year ended June 30, 2026, as compared to the years ended June 30, 2025 and 2024:

	Year Ended June 30,			Change	
	2026	2025	2024	2026/2025	2025/2024
Admissions	11,812	11,642	11,015	170	627
Average daily census	110	115	117	(5)	(2)
Average length of stay	3	4	4	(1)	-
Patient days					
Medicare	19,631	21,013	21,375	(1,382)	(362)
Managed care	7,353	6,930	7,634	423	(704)
Medi-Cal and CCAH	11,478	12,523	12,535	(1,045)	(12)
Other	1,628	1,465	1,208	163	257
Total patient days	40,090	41,931	42,752	(1,841)	(821)
Outpatient visits					
Hospital outpatients	85,694	70,025	57,725	15,669	12,300
Laboratory	101,962	98,757	66,986	3,205	31,771
Emergency room	62,001	63,175	64,522	(1,174)	(1,347)
Total outpatient visits	249,657	231,957	189,233	17,700	42,724

DRAFT
Not to be reproduced or relied upon for any purpose

Total patient days decreased by 4.4% in fiscal year 2026 compared with fiscal year 2025, while total outpatient visits increased by 7.6%. Hospital admissions increased by 1.5%, while the average daily census decreased from 115 to 110 patients. The decrease in inpatient days and average daily census was primarily attributable to improvements in discharge planning and care management, along with a decrease in the overall case mix index, which contributed to shorter hospital stays.

Other Operating Revenues

Other operating revenues increased by $10.7 million, or 33.9%, to $42.5 million in fiscal year 2026, compared with $31.7 million in fiscal year 2025. The increase was primarily attributable to approximately $12.0 million in quality incentive payments from Central California Alliance for Health (CCAH) related to the implementation of the Epic electronic health record system, $1.5 million in additional PCF payments, and $1.9 million in CCAH grants supporting DOD and Clinics. These increases were partially offset by a $4.1 million decrease in Medi-Cal Quality Incentive Program payments and a $1.3 million decrease associated with the termination of the Blue Zones program.

Operating Expenses

Total operating expenses increased by $51.9 million, or 6.5%, to $846.6 million in fiscal year 2026, compared with $794.7 million in fiscal year 2025.

Salaries and wages increased by $29.6 million, or 11.4%, while compensated absences increased by $5.8 million. The increase in salaries and wages was primarily attributable to additional staffing and personnel costs associated with the implementation of Epic, as well as an increase in full-time equivalent employees.

Employee benefits decreased by $19.2 million, primarily reflecting a $12.2 million reduction in group health plan costs resulting from changes in reimbursement rates for inpatient and outpatient claims, and an $8.9 million decrease in pension expense associated with the defined benefit pension plan's improved funded position. These decreases were partially offset by a $1.9 million increase in payroll-related taxes resulting from higher wages.

Purchased services increased by $12.6 million, or 18.7%, primarily reflecting approximately $10.6 million in Epic implementation-related services, including employee training, system configuration, and post-implementation support.

Other fees increased by $11.4 million, or 27.5%, primarily reflecting an $8.5 million increase in contract labor costs associated with staffing coverage during the Epic implementation and a $3.0 million increase in expenses at Salinas Valley Health Clinics related to additional nonphysician practitioners and management consulting services.

Medical fees increased by $5.4 million, or 5.8%, while supplies expense increased by $2.6 million, or 2.1%. Depreciation and amortization expense increased by $4.3 million, reflecting additional capital and technology-related assets placed in service.

Operating income decreased by $30.5 million to $21.1 million in fiscal year 2026, compared with $51.6 million in fiscal year 2025, as operating expenses increased more rapidly than operating revenues.

Noncapital Subsidies

Effective for fiscal year 2026, GASB Statement No. 103 requires noncapital subsidies to be presented separately following operating income. Noncapital subsidies totaled $6.4 million in fiscal year 2026, compared with $12.6 million in fiscal year 2025. The fiscal year 2026 amount consisted of property tax revenues, while fiscal year 2025 also included $6.3 million in FEMA grant funding related to reimbursement of operating costs incurred during the COVID-19 pandemic. The $6.2 million decrease was primarily attributable to the final obligated FEMA grant recognized in fiscal year 2025, which did not recur in fiscal year 2026.

Operating income and noncapital subsidies totaled $27.6 million in fiscal year 2026, compared with $64.3 million in fiscal year 2025.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses, net, totaled $15.4 million in fiscal year 2026, compared with $41.3 million in fiscal year 2025.

DRAFT
Not to be reproduced or relied upon for any purpose

Net investment income decreased by $15.7 million, from $42.8 million in fiscal year 2025 to $27.1 million in fiscal year 2026. The decrease was primarily attributable to a $12.1 million change in unrealized investment gains and losses, a $1.7 million decrease in bank interest income, and a $2.5 million decrease in investment accretion income.

Provisions for credit losses totaled $16.1 million in fiscal year 2026, compared with $13.6 million in fiscal year 2025, reflecting credit losses associated with SVH's investment and financing arrangements with healthcare affiliates.

Capital-related grants and contributions totaled $2.3 million in fiscal year 2026, compared with $2.8 million in fiscal year 2025.

Income from investments in affiliates decreased by $0.8 million, from $2.5 million in fiscal year 2025 to $1.7 million in fiscal year 2026.

Overall, SVH reported an increase in net position of $43.0 million in fiscal year 2026, compared with $105.6 million in fiscal year 2025.

DRAFT
Not to be reproduced or relied upon for any purpose

Analysis of Revenues and Expenses – 2025 and 2024

Operating revenues increased by $71.4 million, or 9.2%, in fiscal year 2025, primarily due to higher patient service revenues and increased outpatient volumes. Operating expenses increased by $48.7 million, or 6.5%, primarily due to higher salaries, supplies, and medical fees. Operating income increased by $22.6 million to $51.6 million, while the increase in net position rose from $79.3 million in fiscal year 2024 to $105.6 million in fiscal year 2025.

Liquidity and Other Key Ratios

The following table presents selected financial ratios for the fiscal years ended June 30, 2026, 2025, and 2024:

	Year Ended June 30,		
	2026	2025	2024
Liquidity ratios			
Current ratio	3.4	5.3	4.0
Days of revenue in patient accounts receivable	65.5	66.7	60.6
Margins			
Operating income to total operating revenues	2.4%	6.1%	3.7%
Increase in net position (net income) to total operating revenues	5.0%	12.5%	10.2%
Return on total net position	3.7%	9.6%	7.9%

SVH's current ratio decreased from 5.3 at June 30, 2025, to 3.4 at June 30, 2026, primarily reflecting the reallocation of investments from short-term to long-term investments. This change reduced reported current assets but did not represent a corresponding reduction in total investment holdings.

Days of revenue in patient accounts receivable decreased slightly from 66.7 days to 65.5 days.

The operating margin decreased from 6.1% in fiscal year 2025 to 2.4% in fiscal year 2026, as operating expenses increased more rapidly than operating revenues, primarily reflecting higher staffing and Epic implementation-related costs.

The increase in net position as a percentage of total operating revenues decreased from 12.5% to 5.0%, reflecting lower operating income and nonoperating results.

Section 4 – Significant Capital Asset and Long-Term Financing Activity

During fiscal year 2026, Salinas Valley Health (SVH) continued to invest in its facilities, medical equipment, and information technology infrastructure.

DRAFT
Not to be reproduced or relied upon for any purpose

Capital Asset Activity

Capital assets, net of accumulated depreciation and amortization, increased by $17.7 million, from $256.0 million at June 30, 2025, to $273.7 million at June 30, 2026. Capital asset additions totaled approximately $47.1 million during the year, primarily consisting of construction in progress, building improvements, and medical equipment, partially offset by depreciation and asset disposals.

Construction in progress increased from $14.8 million to $34.6 million, reflecting ongoing capital projects. Significant projects underway during fiscal year 2026 included approximately $6.8 million for the acquisition and renovation of the Padre Drive building, $6.6 million for the Master Plan Retrofit project, and $2.0 million for improvements to the Angiography and Special Procedures Suite. Significant projects completed and placed in service during fiscal year 2026 included roof replacement at the Ryan Ranch facility ($2.5 million), renovations to the Basement Annex training rooms ($2.1 million), Epic acute care installation ($1.9 million), Medical Center campus improvements ($1.6 million), and IV pump equipment ($1.3 million).

Subscription-Based Information Technology Arrangements

During fiscal year 2026, SVH continued the implementation of its Epic electronic health record system and Workday financial management system.

Subscription assets, net of accumulated amortization, increased by $57.8 million, from $8.1 million at June 30, 2025, to $65.9 million at June 30, 2026. This increase primarily reflects costs associated with the implementation and operationalization of Epic and Workday.

Subscription liabilities increased by $23.4 million, from $5.7 million at June 30, 2025, to $29.1 million at June 30, 2026, primarily reflecting additional subscription obligations associated with Epic ($17.9 million), Workday ($3.0 million), and Microsoft ($2.4 million).

Long-Term Financing Activity

SVH had no significant new borrowing activity during fiscal year 2026. Changes in long-term financing obligations were primarily attributable to additional subscription liabilities associated with Epic, Workday, and Microsoft, as discussed above. Additional information regarding SVH's capital assets, leases, and subscription-based information technology arrangements is provided in Notes 6, 13, and 14 to the consolidated financial statements.

Section 5 – Currently Known Facts, Decisions or Conditions

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

Physician Recruitment and Healthcare Services

SVH continues to focus on physician recruitment to address anticipated retirements and the healthcare needs of its growing service area. Management expects physician recruitment and retention to remain important to maintaining access to primary and specialty care services.

SVH also continues to evaluate opportunities to expand healthcare services through partnerships and affiliations with physicians and other healthcare organizations.

Information Technology Initiatives

SVH has made significant investments in its Epic electronic health record system and Workday financial management system. These initiatives are intended to support clinical operations, financial reporting, and operational efficiency.

Both Epic and Workday are operational and have transitioned from implementation to ongoing system optimization. Management does not anticipate significant additional implementation costs beyond existing contractual commitments. Ongoing licensing, maintenance, and staffing costs are incorporated into SVH's operating budgets, although subscription costs may increase based on employee staffing levels and patient visit volumes. Additional system enhancements may be undertaken as operational needs arise.

Reimbursement and Other Financial Considerations

SVH's future operating results will continue to be affected by reimbursement arrangements with Medicare, Medi-Cal, commercial insurers, and other third-party payers.

Federal legislation enacted in July 2025 (H.R. 1) includes significant changes to Medicaid eligibility and financing that are expected to affect SVH beginning in fiscal year 2027, with potentially greater effects in subsequent years. Changes to eligibility, work requirements, renewal frequency, and retroactive coverage are expected to reduce Medi-Cal enrollment and increase the number of uninsured patients, potentially resulting in higher charity care and uncollectible patient accounts.

DRAFT
Not to be reproduced or relied upon for any purpose

The legislation also introduces changes to Medicaid financing arrangements, including provider taxes and state-directed payments, which could affect supplemental reimbursement received by SVH in future years. The extent of these effects will depend on California's implementation of the new requirements, federal guidance, and changes in patient enrollment and utilization.

Management is monitoring Medi-Cal enrollment and payer mix, evaluating the potential effects on patient service revenues and uncompensated care, and considering operational and cost-management responses. Because implementation details and their effects remain uncertain, management cannot currently reasonably estimate the financial impact on SVH.

DRAFT
Not to be reproduced or relied upon for any purpose

MANAGEMENT'S DISCUSSION AND ANALYSIS – FIDUCIARY

Overview

The Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan) was established in November 1966 by Salinas Valley Memorial Healthcare District (now known as Salinas Valley Health or SVH). The Plan is a single-employer defined benefit pension plan that provides retirement, disability, and death benefits to eligible employees based on years of service, age, and compensation during covered employment.

The Plan primarily covers eligible employees with union representation. Participation in the Plan was frozen for nonunion employees effective March 31, 2011. These employees remain entitled to benefits earned before that date but no longer accrue additional benefits.

The Plan is administered in accordance with provisions established by SVH's Board of Directors and applicable state law, including the California Public Employees' Pension Reform Act of 2013 (PEPRA).

Plan assets are invested primarily in equity and fixed-income mutual funds. Investment earnings and employer and member contributions are used to provide retirement benefits to participants and beneficiaries.

Additional information regarding the Plan's eligibility requirements, benefit provisions, and amendments is provided in the notes to the financial statements.

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

The Plan's basic financial statements consist of the statements of fiduciary net position, statements of changes in fiduciary net position, and accompanying notes. These statements provide information about the financial position and activities of the Plan. The statements of fiduciary net position report the Plan's assets, liabilities, and net position held in trust for pension benefits. The statements of changes in fiduciary net position report additions from investment income and contributions, as well as deductions for benefit payments and administrative expenses. The accompanying notes provide additional information about the Plan's provisions, investments, and accounting policies. Required supplementary information provides further details regarding Plan participation, funding, and employer contributions.

Financial Analysis of the Plan

The Plan's net position held in trust for pension benefits increased by $60.8 million, or 11.8%, to $576.4 million at June 30, 2026, compared with $515.6 million at June 30, 2025. The increase was primarily attributable to $67.8 million in investment income and $15.6 million in employer and member contributions, partially offset by $22.5 million in benefit payments.

The following tables summarize the Plan's financial position and changes in fiduciary net position for the fiscal years ended June 30, 2026, 2025, and 2024 (in thousands):

DRAFT
Not to be reproduced or relied upon for any purpose

Summary of Fiduciary Net Position

	As of June 30,			Change
	2026	2025	2024	2026/2025
Cash and investments	$ 576,430	$ 515,636	$ 459,539	$ 60,794
Net position held in trust for pension benefits	$ 576,430	$ 515,636	$ 459,539	$ 60,794

Summary of Changes in Fiduciary Net Position

	Year Ended June 30,			Change
	2026	2025	2024	2026/2025
Investment income (loss), net	$ 67,778	$ 63,511	$ 62,101	$ 4,267
Employer contributions	12,371	12,603	11,270	(232)
Member contributions	3,265	2,800	2,506	465
Benefit payments to members and beneficiaries	(22,504)	(22,703)	(19,962)	199
Administrative expenses	(116)	(114)	(96)	(2)
Net change in fiduciary net position	$ 60,794	$ 56,097	$ 55,819	$ 4,697

Analysis – 2026 and 2025

Net investment income increased by $4.3 million to $67.8 million in fiscal year 2026, compared with $63.5 million in fiscal year 2025. The increase was primarily attributable to higher net appreciation in the fair value of investments, while dividend income remained relatively consistent with the prior year.

Employer contributions totaled $12.4 million in fiscal year 2026, compared with $12.6 million in fiscal year 2025. Member contributions increased by $0.5 million to $3.3 million. Benefit payments totaled $22.5 million in fiscal year 2026, compared with $22.7 million in fiscal year 2025, remaining relatively consistent with the prior year. Administrative expenses also remained relatively consistent.

Overall, the Plan's fiduciary net position increased by $60.8 million during fiscal year 2026, compared with an increase of $56.1 million in fiscal year 2025.

Analysis – 2025 and 2024

The Plan's fiduciary net position increased by $56.1 million during fiscal year 2025, compared with an increase of $55.8 million in fiscal year 2024. Investment income remained the primary contributor to the increase in fiduciary net position, partially offset by benefit payments.

DRAFT
Not to be reproduced or relied upon for any purpose

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026 and 2025, 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, 2026 and 2025, 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 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.

DRAFT
Not to be relied upon for any purpose

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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the accompanying 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 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 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.

San Francisco, California
November XX, 2026

Consolidated Financial Statements

DRAFT
Not to be reproduced or relied upon for any purpose

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2026 and 2025
(in Thousands)

	2026	2025
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 302,120	$ 312,848
Patient accounts receivable, net of estimated uncollectibles of $71,509 and $65,015 at June 30, 2026 and 2025, respectively	148,143	148,799
Short-term investments	12,302	142,779
Supplies inventory	7,244	8,357
Lease receivable, current portion	715	436
Other current assets	53,159	39,400
Total current assets	523,683	652,619
BOARD-DESIGNATED FUNDS	181,149	176,241
CAPITAL ASSETS		
Nondepreciable	61,900	40,835
Depreciable, net	211,780	215,192
Total capital assets, net	273,680	256,027
OTHER ASSETS		
Right-of-use assets, net of amortization	14,829	15,387
Subscription assets, net of amortization	65,861	8,060
Lease receivable, net of current portion	2,294	2,041
Long-term investments	279,358	148,417
Investments in affiliates	18,934	15,176
Net pension asset	49,108	19,774
Other long-term assets	1,580	1,603
Total other assets	431,964	210,458
Total assets	1,410,476	1,295,345
DEFERRED OUTFLOWS – ACTUARIAL	40,473	55,439
DEFERRED OUTFLOWS – GOODWILL	549	638
Total deferred outflows	41,022	56,077
Total assets and deferred outflows	$ 1,451,498	$ 1,351,422

DRAFT
Not to be reproduced or relied upon for any purpose

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2026 and 2025
(in Thousands)

	2026	2025
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Notes payable, current portion	$ 114	$ 109
Accounts payable	25,404	18,335
Accrued expenses	91,891	74,858
Estimated third-party payor settlements	3,718	4,491
Lease liabilities, current portion	4,623	4,694
Subscription liabilities, current portion	7,135	2,780
Self-insurance liabilities, current portion	21,283	16,734
Total current liabilities	154,168	122,001
COMPENSATED ABSENCES, net of current portion	13,925	12,052
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	6,345	3,852
NOTES PAYABLE, net of current portion	326	440
LEASE LIABILITIES, net of current portion	11,945	11,798
SUBSCRIPTION LIABILITIES, net of current portion	21,920	2,876
SELF-INSURANCE LIABILITIES, net of current portion	11,680	11,656
Total liabilities	220,309	164,675
DEFERRED INFLOWS – ACTUARIAL	80,474	79,395
DEFERRED INFLOWS – LEASES	2,847	2,441
Total deferred inflows	83,321	81,836
Total liabilities and deferred inflows	303,630	246,511
NET POSITION		
Invested in capital assets, net of related debt	308,307	256,777
Reserved for minority interest	(10,280)	(8,929)
Restricted – expendable	2,903	3,940
Restricted – nonexpendable	1,271	1,232
Unrestricted	845,667	851,891
Total net position	1,147,868	1,104,911
Total liabilities, deferred inflows, and net position	$ 1,451,498	$ 1,351,422

DRAFT
Not to be reproduced or relied upon for any purpose

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2026 and 2025
(in Thousands)

	2026	2025
OPERATING REVENUES		
Net patient service revenues	$ 825,298	$ 814,635
Other revenues	42,459	31,719
Total operating revenues	867,757	846,354
OPERATING EXPENSES		
Salaries and wages	287,921	258,364
Compensated absences	48,566	42,791
Employee benefits	86,892	106,053
Supplies	123,030	120,465
Purchased services	80,260	67,611
Medical fees	97,697	93,600
Other fees	54,263	41,497
Depreciation and amortization	41,586	37,280
Other expenses	26,398	27,044
Total operating expenses	846,613	794,705
Operating income	21,144	51,649
NONCAPITAL SUBSIDIES		
Property tax revenue	6,409	6,384
Other noncapital subsidies	-	6,261
Total noncapital subsidies	6,409	12,645
Operating income and noncapital subsidies	27,553	64,294
NONOPERATING REVENUES AND EXPENSES		
Grants and contributions - capital subsidies	2,256	2,766
Investment income, net	27,101	42,800
Provision for credit losses	(16,123)	(13,618)
(Loss) gain on disposal of capital assets	(106)	116
Income from investments in affiliates	1,677	2,490
Other	(595)	4,605
Nonoperating income, net	14,210	39,159
INCOME BEFORE MINORITY INTEREST	41,763	103,453
MINORITY INTEREST IN INCOME OF CONSOLIDATED AFFILIATES	1,194	2,142
INCREASE IN NET POSITION	42,957	105,595
NET POSITION, beginning of year	1,104,911	999,316
NET POSITION, end of year	$ 1,147,868	$ 1,104,911

DRAFT
Not to be reproduced or relied upon for any purpose

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows
Years Ended June 30, 2026 and 2025
(in Thousands)

	2026	2025
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$ 755,189	$ 724,192
Cash paid to employees for services	(412,691)	(405,633)
Cash paid to suppliers for goods and services	(354,502)	(316,829)
Other receipts from operations	42,459	31,719
Net cash provided by operating activities	30,455	33,449
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from property taxes levied by the County	6,409	6,384
Other noncapital subsidies	-	6,261
Net cash provided by noncapital financing activities	6,409	12,645
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(47,088)	(23,836)
Proceeds from sale of capital assets	-	405
Proceeds from lease receivable	878	2,681
Payments on lease liabilities	(5,360)	(4,834)
Payments on subscription liabilities	(2,187)	(5,268)
Capital grants and donations	2,256	2,766
Principal payments on notes payable	(109)	(103)
Net cash used in capital and related financing activities	(51,610)	(28,189)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(325,992)	(344,868)
Proceeds from sales of investments	325,528	338,088
Proceeds from investment income, net	27,101	42,800
Changes in board-designated funds	(4,908)	(9,827)
Other nonoperating distribution, net	(17,711)	(4,454)
Net cash provided by investing activities	4,018	21,739
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,728)	39,644
CASH AND CASH EQUIVALENTS, beginning of year	312,848	273,204
CASH AND CASH EQUIVALENTS, end of year	$ 302,120	$ 312,848

DRAFT
Not to be reproduced or relied upon for any purpose

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows
Years Ended June 30, 2026 and 2025
(in Thousands)

	2026	2025
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 21,144	$ 51,649
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	41,586	37,280
Provision for doubtful accounts	69,992	67,358
Net loss (gain) on disposal of capital and subscription assets	106	(116)
Pension and post-retirement related adjustments	(10,796)	(1,255)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(69,336)	(91,245)
Lease receivable	(1,410)	(3,906)
Supplies and other assets	(12,623)	(25,118)
Compensated absences	4,380	1,835
Deferred outflows - goodwill	89	250
Accounts payable and accrued expenses	(16,883)	(3,800)
Self-insurance liabilities	4,573	(1,614)
Deferred inflows - leases	406	1,329
Estimated third-party payor settlements	(773)	802
Net cash provided by operating activities	$ 30,455	$ 33,449
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Noncash acquisition of ROU assets	$ 4,869	$ 5,911
Noncash acquisition of subscription assets	$ 25,586	$ 3,235

DRAFT
Not to be reproduced or relied upon for any purpose

See accompanying notes.

Salinas Valley Memorial Healthcare System
Employees' Pension Plan – Statements of Fiduciary Net Position
June 30, 2026 and 2025
(in Thousands)

	2026	2025
ASSETS		
Investments, at fair value		
Mutual funds	$ 576,430	$ 515,636
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$ 576,430	$ 515,636

DRAFT
Not to be reproduced or relied upon for any purpose

See accompanying notes.

Salinas Valley Memorial Healthcare System
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2026 and 2025
(in Thousands)

	2026	2025
ADDITIONS		
Investment income		
Net appreciation in fair value of investments	$ 55,960	$ 51,590
Dividends	11,818	11,921
Net investment income	67,778	63,511
Contributions		
Employer	12,371	12,603
Members	3,265	2,800
Total contributions	15,636	15,403
Total additions	83,414	78,914
DEDUCTIONS		
Benefit payments	22,504	22,703
Administrative expenses	116	114
Total deductions	22,620	22,817
NET CHANGE IN NET POSITION	60,794	56,097
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, beginning of year	515,636	459,539
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, end of year	$ 576,430	$ 515,636

DRAFT
Not to be reproduced or relied upon for any purpose

See accompanying notes.

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 defined benefit pension plan 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.

DRAFT
Not to be reproduced or relied upon for any purpose

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 its component units, as described in Note 1. The component units identified in Note 1 that meet the applicable blending criteria are reported as part of the primary government because of their financial and operational relationships with SVH. All significant intercompany accounts and transactions are eliminated upon consolidation. Investments in entities over which SVH does not have control are accounted for using the equity method, as applicable. Minority interest represents the proportionate share of equity in consolidated affiliates attributable to minority owners.

Blended component units - The consolidated financial statements include SVHMC and its component units, as described in Note 1. The financial information of component units reported through blending is included with SVHMC in the consolidated statements. The following condensed combining financial information presents the financial position, results of operations, and cash flows of SVHMC and its component units as of and for the year ended June 30, 2026.

Condensed Combining Statement of Net Position

	June 30, 2026 | $ in thousands						
	SVHMC	SVHC	CCMSO	Foundation	NICU JV	Eliminations	Consolidated
Current assets	$ 487,352	$ 25,016	$ 6,912	$ 2,802	$ -	$ 1,601	$ 523,683
Capital assets, net	$ 264,333	$ 5,091	$ 3,568	$ -	$ 688	$ -	$ 273,680
Noncurrent assets	$ 606,157	$ -	$ 4,095	$ 23,019	$ -	$ (20,158)	$ 613,113
Total assets	$ 1,357,842	$ 30,107	$ 14,575	$ 25,821	$ 688	$ (18,557)	$ 1,410,476
Deferred outflows	$ 41,005	$ 17	$ -	$ -	$ -	$ -	$ 41,022
Current liabilities	$ 137,649	$ 12,464	$ 3,853	$ 202	$ -	$ -	$ 154,168
Noncurrent liabilities	$ 62,623	$ -	$ 3,518	$ -	$ -	$ -	$ 66,141
Total liabilities	$ 200,272	$ 12,464	$ 7,371	$ 202	$ -	$ -	$ 220,309
Deferred inflows	$ 83,321	$ -	$ -	$ -	$ -	$ -	$ 83,321
Net investment in capital assets	$ 300,475	$ 5,091	$ 2,053	$ -	$ 688	$ -	$ 308,307
Restricted - expendable	$ -	$ -	$ -	$ 2,903	$ -	$ -	$ 2,903
Restricted - nonexpendable	$ -	$ -	$ -	$ 1,271	$ -	$ -	$ 1,271
Unrestricted net position	$ 814,779	$ 12,569	$ 5,151	$ 21,445	$ -	$ (18,557)	$ 835,387
Total net position	$ 1,115,254	$ 17,660	$ 7,204	$ 25,619	$ 688	$ (18,557)	$ 1,147,868

Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position

	Year ended June 30, 2026 | $ in thousands						
	SVHMC	SVHC	CCMSO	Foundation	NICU JV	Eliminations	Consolidated
Net patient service revenues	$ 691,923	$ 99,581	$ 24,490	$ -	$ 9,304	$ -	$ 825,298
Other operating revenue	$ 38,215	$ 20,021	$ 1,027	$ -	$ -	$ (16,804)	$ 42,459
Total operating revenues	$ 730,138	$ 119,602	$ 25,517	$ -	$ 9,304	$ (16,804)	$ 867,757
Operating expenses	$ 657,590	$ 169,144	$ 25,389	$ 5,782	$ 11,159	$ (22,451)	$ 846,613
Operating income (loss)	$ 72,548	$ (49,542)	$ 128	$ (5,782)	$ (1,855)	$ 5,647	$ 21,144
Noncapital subsidies, net	$ 6,409	$ 57,786	$ (1,050)	$ -	$ 1,655	$ (58,391)	$ 6,409
Operating income (loss) and noncapital subsidies	$ 78,957	$ 8,244	$ (922)	$ (5,782)	$ (200)	$ (52,744)	$ 27,553
Other nonoperating revenues (expenses), net	$ (39,121)	$ 398	$ 93	$ 9,028	$ -	$ 45,006	$ 15,404
Increase (decrease) in net position	$ 39,836	$ 8,642	$ (829)	$ 3,246	$ (200)	$ (7,738)	$ 42,957
Net position, beginning	$ 1,075,418	$ 9,018	$ 8,033	$ 22,373	$ 888	$ (10,819)	$ 1,104,911
Net position, ending	$ 1,115,254	$ 17,660	$ 7,204	$ 25,619	$ 688	$ (18,557)	$ 1,147,868

Condensed Combining Statement of Cash Flows

	Year ended June 30, 2026 | $ in thousands						
	SVHMC	SVHC	CCMSO	Foundation	NICU JV	Eliminations	Consolidated
Operating activities, net	$ 75,967	$ (49,391)	$ 756	$ (5,683)	$ (1,567)	$ 10,373	$ 30,455
Noncapital financing activities, net	$ 6,409	$ 57,786	$ (1,050)	$ -	$ 1,655	$ (58,391)	$ 6,409
Capital and related financing activities, net	$ (45,549)	$ (1,239)	$ (76)	$ 5,713	$ (88)	$ (10,371)	$ (51,610)
Investing activities, net	$ (54,965)	$ 373	$ 93	$ 128	$ -	$ 58,389	$ 4,018
Net change in cash	$ (18,138)	$ 7,529	$ (277)	$ 158	$ -	$ -	$ (10,728)
Cash, beginning of year	$ 300,127	$ 5,848	$ 4,230	$ 2,643	$ -	$ -	$ 312,848
Cash, end of year	$ 281,989	$ 13,377	$ 3,953	$ 2,801	$ -	$ -	$ 302,120

DRAFT
Not to be reproduced or relied upon for any purpose

The following condensed combining financial information presents the financial position, results of operations, and cash flows of SVHMC and its component units as of and for the year ended June 30, 2025.

Condensed Combining Statement of Net Position

	June 30, 2025 | $ in thousands						
	SVHMC	SVHC	CCMSO	Foundation	NICU JV	Eliminations	Consolidated
Current assets	$ 623,249	$ 18,121	$ 7,025	$ 2,645	$ -	$ 1,579	$ 652,619
Capital assets, net	$ 246,280	$ 4,873	$ 3,986	$ -	$ 888	$ -	$ 256,027
Noncurrent assets	$ 371,226	$ 4,021	$ 4,006	$ 19,868	$ -	$ (12,422)	$ 386,699
Total assets	$ 1,240,755	$ 27,015	$ 15,017	$ 22,513	$ 888	$ (10,843)	$ 1,295,345
Deferred outflows	$ 55,971	$ 106	$ -	$ -	$ -	$ -	$ 56,077
Current liabilities	$ 103,513	$ 14,696	$ 3,675	$ 140	$ -	$ (23)	$ 122,001
Noncurrent liabilities	$ 35,959	$ 3,407	$ 3,309	$ -	$ -	$ (1)	$ 42,674
Total liabilities	$ 139,472	$ 18,103	$ 6,984	$ 140	$ -	$ (24)	$ 164,675
Deferred inflows	$ 81,836	$ -	$ -	$ -	$ -	$ -	$ 81,836
Net investment in capital assets	$ 248,608	$ 4,597	$ 2,661	$ -	$ 888	$ 23	$ 256,777
Restricted - expendable	$ -	$ -	$ -	$ 3,940	$ -	$ -	$ 3,940
Restricted - nonexpendable	$ -	$ -	$ -	$ 1,232	$ -	$ -	$ 1,232
Unrestricted net position	$ 826,810	$ 4,421	$ 5,372	$ 17,201	$ -	$ (10,842)	$ 842,962
Total net position	$ 1,075,418	$ 9,018	$ 8,033	$ 22,373	$ 888	$ (10,819)	$ 1,104,911

Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position

	Year ended June 30, 2025 | $ in thousands						
	SVHMC	SVHC	CCMSO	Foundation	NICU JV	Eliminations	Consolidated
Net patient service revenues	$ 692,596	$ 89,572	$ 25,430	$ -	$ 7,037	$ -	$ 814,635
Other operating revenue	$ 27,195	$ 16,966	$ -	$ -	$ -	$ (12,442)	$ 31,719
Total operating revenues	$ 719,791	$ 106,538	$ 25,430	$ -	$ 7,037	$ (12,442)	$ 846,354
Operating expenses	$ 602,681	$ 167,554	$ 25,594	$ 4,550	$ 11,516	$ (17,190)	$ 794,705
Operating income (loss)	$ 117,110	$ (61,016)	$ (164)	$ (4,550)	$ (4,479)	$ 4,748	$ 51,649
Noncapital subsidies, net	$ 12,645	$ 57,576	$ (1,050)	$ -	$ 4,754	$ (61,280)	$ 12,645
Operating income (loss) and noncapital subsidies	$ 129,755	$ (3,440)	$ (1,214)	$ (4,550)	$ 275	$ (56,532)	$ 64,294
Other nonoperating revenues (expenses), net	$ (31,092)	$ 7,760	$ 812	$ 5,766	$ -	$ 58,055	$ 41,301
Increase (decrease) in net position	$ 98,663	$ 4,320	$ (402)	$ 1,216	$ 275	$ 1,523	$ 105,595
Net position, beginning	$ 976,755	$ 4,698	$ 8,435	$ 21,157	$ 613	$ (12,342)	$ 999,316
Net position, ending	$ 1,075,418	$ 9,018	$ 8,033	$ 22,373	$ 888	$ (10,819)	$ 1,104,911

Condensed Combining Statement of Cash Flows

	Year ended June 30, 2025 | $ in thousands						
	SVHMC	SVHC	CCMSO	Foundation	NICU JV	Eliminations	Consolidated
Operating activities, net	$ 117,858	$ (62,233)	$ 546	$ (5,215)	$ (4,144)	$ (13,363)	$ 33,449
Noncapital financing activities, net	$ 12,645	$ 57,576	$ (1,050)	$ -	$ 4,754	$ (61,280)	$ 12,645
Capital and related financing activities, net	$ (26,461)	$ (1,197)	$ (91)	$ 3,702	$ (610)	$ (3,532)	$ (28,189)
Investing activities, net	$ (68,845)	$ 7,760	$ 811	$ 3,838	$ -	$ 78,175	$ 21,739
Net change in cash	$ 35,197	$ 1,906	$ 216	$ 2,325	$ -	$ -	$ 39,644
Cash, beginning of year	$ 264,930	$ 3,942	$ 4,014	$ 318	$ -	$ -	$ 273,204
Cash, end of year	$ 300,127	$ 5,848	$ 4,230	$ 2,643	$ -	$ -	$ 312,848

DRAFT
Not to be reproduced or relied upon for any purpose

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 April 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 provide information that is essential for decision making and assessing a government's accountability. SVH adopted this statement during the year ended June 30, 2026. The adoption resulted in changes to the presentation of operating and nonoperating revenues and expenses, including the separate presentation of noncapital subsidies, and revisions to management's discussion and analysis. Certain prior-year amounts have been reclassified to conform to the current-year presentation. The adoption did not affect total net position or the change in net position.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Asset*s. This statement establishes additional disclosure requirements for certain capital assets, including lease assets, subscription assets, other intangible assets, and capital assets held for sale. SVH adopted this statement during the year ended June 30, 2026. The adoption did not have a material impact on SVH's 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 right-of-use (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.

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.

DRAFT
Not to be reproduced or relied upon for any purpose

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

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, 2026 and 2025.

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.

DRAFT
Not to be reproduced or shared
without permission

The table below reflects the components of deferred outflows and inflows as of June 30, in thousands:

	2026	2025
Deferred outflows - actuarial		
Pension	$ 39,754	$ 54,708
Post-retirement medical plans	719	731
Total deferred outflows - actuarial	40,473	55,439
Deferred outflows - goodwill	549	638
Total deferred outflows	$ 41,022	$ 56,077
Deferred inflows - actuarial		
Pension	$ 78,546	$ 77,507
Post-retirement medical plans	1,928	1,888
Total deferred inflows - actuarial	80,474	79,395
Deferred inflows - leases	2,847	2,441
Total deferred inflows	$ 83,321	$ 81,836

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.

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026 and 2025.

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 ROU 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.

DRAFT
Not to be reproduced or relied upon for any purpose

Statements of revenues, expenses, and changes in net position – Operating revenues and expenses generally result from the provision of healthcare services and other activities that are not classified as nonoperating under GASB Statement No. 103. Operating revenues primarily include net patient service revenues and other revenues associated with healthcare operations. Operating expenses include salaries, employee benefits, supplies, purchased services, depreciation and amortization, and other expenses incurred in providing healthcare services.

Nonoperating revenues and expenses include investment income, financing-related revenues and expenses, and other activities classified as nonoperating under GASB Statement No. 103. Noncapital subsidies, including property tax revenues and qualifying grant funding, are presented separately following operating income. Capital subsidies and other nonoperating revenues and expenses are presented within nonoperating activities.

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.

DRAFT
Not to be reproduced or relied upon for any purpose

Grants and contributions – For the year ended June 30, 2025, SVH was obligated and received approximately $6.3 million in disaster relief funding from the Federal Emergency Management Agency (FEMA), which was recognized as a noncapital subsidy in the consolidated statements of revenues, expenses, and changes in net position. No such funds were received in 2026.

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 $1.1 million and $1.3 million for the years ended June 30, 2026 and 2025, respectively.

Property taxes – SVH, as part of a California special district, receives property taxes that are assessed by Monterey County. Such amounts are recorded as noncapital subsidies 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 $16.1 million and $13.6 million was included within nonoperating expenses as provisions for credit losses related to financing arrangements in the consolidated statements of revenues, expenses, and changes in net position for the years ended June 30, 2026 and 2025, 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 19% and 23%, while negotiated third-party payors amounted to 49% and 44% of total net patient service revenues for the years ended June 30, 2026 and 2025, respectively. Significant concentrations of net patient accounts receivable include Medicare at 19% and 18% and negotiated third-party payors at 67% and 70% at June 30, 2026 and 2025, respectively.

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

Reclassifications – Certain reclassifications of prior year's balances have been made to conform with the current year presentation, including changes resulting from the adoption of GASB Statement No. 103. These changes affected the classification of certain operating revenues, grants and contributions, and property tax revenues, including the separate presentation of noncapital subsidies. Such reclassifications did not affect total net position or the increase in net position.

DRAFT
Not to be reproduced or relied upon for any purpose

Note 3 – Net Patient Service Revenues

Net patient service revenues for the years ended June 30, 2026 and 2025, consisted of the following, in thousands:

	2026	2025
Gross patient service revenues		
Routine inpatient services	$ 454,644	$ 461,464
Ancillary services	2,623,935	2,536,372
Outpatient services	572,694	609,230
Total gross patient service revenues	3,651,273	3,607,066
Deductions from gross patient service revenues		
Contractual allowance for statutory and negotiated rates	(2,748,630)	(2,717,369)
Provision for doubtful accounts	(69,992)	(67,358)
Charity care	(7,353)	(7,704)
Net patient service revenues	$ 825,298	$ 814,635

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 their 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, 2022.

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, 2022.

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 have 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.

SVH also participates in various Medi-Cal supplemental reimbursement and quality incentive programs, including intergovernmental transfer arrangements. Payments received under these programs are recognized as net patient service revenue when earned in accordance with the applicable program requirements and reimbursement arrangements.

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:

	2026	2025
Cash and cash equivalents	$ 302,120	$ 312,848
Short-term investments	12,302	142,779
Board-designated funds	181,149	176,241
Long-term investments	279,358	148,417
Total	$ 774,929	$ 780,285

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

	2026	2025
By Board for capital improvements	$ 181,059	$ 176,151
By agreement with secured vendor	90	90
Total	$ 181,149	$ 176,241

DRAFT
Not to be reproduced or relied upon for any purpose

As of June 30, 2026, 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	$ 302,120	$ 302,120	$ -	$ -	$ -
U.S. Treasury notes	903	-	903	-	-
Municipal notes	13,655	-	2,495	2,541	8,619
Corporate notes	117,636	-	-	2,977	114,659
Commercial paper	4,996	-	4,996	-	-
Federal agency notes	60,074	-	-	15,951	44,123
Bank certificates of deposit	90	-	90	-	-
Money market accounts	6,006	6,006	-	-	-
Mutual funds	21,432	21,432	-	-	-
Government securities	248,017	-	-	11,794	236,223
Total	$ 774,929	$ 329,558	$ 8,484	$ 33,263	$ 403,624

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	$ 780,285	$ 336,423	$ 170,173	$ 2,434	$ 271,255

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

DRAFT
Not to be reproduced or relied upon for any purpose

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.

The following table illustrates the fair value and associated credit ratings of investments held by SVH at June 30, 2026 and 2025, in thousands:

Ratings	Fair Value at June 30, 2026	Fair Value at June 30, 2025
A+ /A / A- / A-1+ / A1 / A2 / A3	$ 90,034	$ 159,834
AAA / AA+ / AA / AA- / AA1 / AA2 / AA3	351,094	274,508
BBB+	-	4,945
NA	3,250	4,484
NR	330,551	336,514
Total	$ 774,929	$ 780,285

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.

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026 and 2025, approximately $18.2 million and $11.9 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.

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, 2026 and 2025, 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.

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026 and 2025, as stratified by fair value hierarchy level, in thousands:

Description	Level 1	Level 2	Level 3	June 30, 2026
Investments by fair value level				
U.S. Treasury notes	$ 903	$ -	$ -	$ 903
Municipal notes	-	13,655	-	13,655
Corporate notes	-	117,636	-	117,636
Federal agency notes	-	60,074	-	60,074
Mutual funds	21,432	-	-	21,432
Government securities	-	248,017	-	248,017
Total by fair value level	$ 22,335	$ 439,382	$ -	461,717
Cash equivalents				
Local agency investment fund				106
Cash holdings				302,014
Total cash equivalents				302,120
Commercial paper				4,996
Bank certificates of deposit				90
Money market accounts				6,006
Total investments and cash equivalents				$ 774,929

DRAFT
Not to be reproduced or relied upon for any purpose

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	$ 72,594	$ 374,363	$ -	446,957
Cash equivalents				
Local agency investment fund				102
Cash holdings				312,746
Total cash equivalents				312,848
Commercial paper				15,017
Bank certificates of deposit				90
Money market accounts				5,373
Total investments and cash equivalents				$ 780,285

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026 and 2025, as stratified by fair value hierarchy level, in thousands:

June 30, 2026	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity securities	$ 170,715	$ -	$ -	$ 170,715
Fixed income	405,715	-	-	405,715
Total	$ 576,430	$ -	$ -	$ 576,430

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	$ 515,636	$ -	$ -	$ 515,636

Note 6 – Capital Assets, Net

The following table summarizes SVH's capital asset activity during the year ended June 30, 2026, in thousands:

	June 30, 2025	Increases	Decreases	Transfers	June 30, 2026
Capital assets not depreciated					
Land	$ 26,059	$ -	$ -	$ 1,289	$ 27,348
Construction in progress	14,776	42,449	(2,617)	(20,056)	34,552
Total capital assets not depreciated	40,835	42,449	(2,617)	(18,767)	61,900
Capital assets being depreciated/amortized					
Buildings and improvements	439,887	228	(574)	9,608	449,149
Movable equipment	261,087	4,411	(10,996)	8,949	263,451
Intangibles	4,596	-	-	-	4,596
Land improvements	2,080	-	-	210	2,290
Total capital assets being depreciated	707,650	4,639	(11,570)	18,767	719,486
Less accumulated depreciation and amortization for					
Buildings and improvements	267,218	13,117	-	-	280,335
Movable equipment	217,949	11,412	(9,334)	-	220,027
Intangibles	5,617	-	-	-	5,617
Land improvements	1,674	53	-	-	1,727
Total accumulated depreciation and amortization	492,458	24,582	(9,334)	-	507,706
Total capital assets being depreciated, net	215,192	(19,943)	(2,236)	18,767	211,780
Capital assets, net	$ 256,027	$ 22,506	$ (4,853)	$ -	$ 273,680

DRAFT
Not to be reproduced or relied upon for any purpose

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
Moveable 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

DRAFT
Not to be reproduced or relied upon for any purpose

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.

Additional information regarding ROU assets and subscription assets is presented in Notes 13 and 14, respectively.

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.
- 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.

DRAFT
Not to be reproduced or relied upon for any purpose

The following table summarizes the percentage interest of and balance of investments in affiliates (in thousands) at June 30, 2026 and 2025:

	Percentage Interest		Investment Balance	
Affiliate	2026	2025	2026	2025
CHI	49%	49%	$ 1,380	$ 1,686
MPSC	20%	12%	11,173	7,138
MRKS	40%	40%	2,901	2,935
MBEC	14%	14%	1,980	1,917
MOOD HEALTH	6%	6%	1,500	1,500
			$ 18,934	$ 15,176

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 $334 thousand and $325 thousand during the years ended June 30, 2026 and 2025, 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 were both $1.8 million during the years ended June 30, 2026 and 2025.

Note 9 – Self-Insurance Liability

SVHMC is self-insured for workers' compensation claims. Estimated losses of $14.3 million and $14.2 million have been accrued under actuarially determined calculations at June 30, 2026 and 2025, of which approximately $2.6 million and $2.6 million are considered current liabilities, respectively.

The following is a summary of changes in workers' compensation self-insurance liabilities for June 30, 2026 and 2025, in thousands:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2026	$ 14,209	$ 5,814	$ (5,760)	$ 14,263	$ 2,583
2025	$ 14,552	$ 3,338	$ (3,681)	$ 14,209	$ 2,553

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, 2026 and 2025, were approximately $16.0 million and $10.9 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 $2.0 million and $1.8 million to BETA for the years ended June 30, 2026 and 2025, respectively. SVHMC's policy with BETA is renewed every 12 months; the most recent renewal date was July 1, 2026. 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, 2026 and 2025, was approximately $2.7 million and $3.3 million, respectively.

DRAFT
not to be reproduced or relied upon for any purpose

Note 10 – Notes Payable, Net

The following table summarizes activity in notes payable, net, during the year ended June 30, 2026, in thousands:

	June 30, 2025	Decreases	June 30, 2026 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.	$ 549	$ (109)	$ 440	$ 114	$ 326
	549	$ (109)	440	$ 114	$ 326
Less current portion	109		114		
Notes payable, net of current portion	$ 440		$ 326		

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	$ (103)	549	$ 109	$ 440
Less current portion	104		109		
Notes payable, net of current portion	$ 548		$ 440		

DRAFT
Not to be reproduced or relied upon for any purpose

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.

Future debt service payments for each of the five fiscal years subsequent to June 30, 2026, and thereafter are as follows, in thousands:

Years Ending June 30,	Principal	Interest	Total
2027	$ 114	$ 16	$ 130
2028	118	11	129
2029	123	6	129
2030	85	1	86
2031	-	-	-
Total	$ 440	$ 34	$ 474

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.

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. 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.

DRAFT
Not to be reproduced or relied upon for any purpose

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.

SVHMC's net pension asset was reported as of June 30, 2026 and 2025, as determined by an actuarial valuation measured as of December 31, 2025 and 2024, rolled forward to June 30, 2026 and 2025, 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 $12.4 million and $12.6 million for the years ended June 30, 2026 and 2025, respectively, all of which were contributed to the Plan as directed and approved by the Board. During the years ended June 30, 2026 and 2025, actual contributions were $12.4 million and $12.6 million, respectively.

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

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

DRAFT
Not to be reproduced or relied upon for any purpose

	January 1, 2026	January 1, 2025
Active	1,463	1,423
Inactive	254	253
Retired and beneficiaries	899	862
Vested terminated	411	416
Total participants	3,027	2,954

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, 2026	June 30, 2025
Deferred outflows – actuarial		
Difference between expected and actual experience	$ 2,769	$ 1,720
Changes in assumptions	8,020	688
Net difference between projected and actual earnings on pension plan investments	22,965	45,929
Contribution to the pension plan after measurement date	6,000	6,371
Total	$ 39,754	$ 54,708
Deferred inflows – actuarial		
Difference between expected and actual experience	$ 1,627	$ 2,925
Changes in assumptions	4,487	7,111
Net difference between projected and actual earnings on pension plan investments	62,100	52,804
Additional pension expense recognition	10,332	14,667
Total	$ 78,546	$ 77,507

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,	
2027	$ (6,993)
2028	(22,783)
2029	(12,639)
2030	(5,801)
2031	1,072
Thereafter	2,352
	$ (44,792)

DRAFT
Not to be reproduced or relied upon for any purpose

The following table summarizes changes in pension liability for fiscal years ended June 30, 2026 and 2025, with a measurement date of January 1, 2026 and 2025, respectively, in thousands:

	2026	2025
Total pension liability		
Service cost	$ 10,540	$ 10,868
Interest on total pension liability	32,187	31,123
Difference between expected and actual experience	1,962	(1,045)
Changes of assumptions	9,186	(1,757)
Benefit payments	(22,416)	(22,563)
Net change in total pension liability	31,459	16,626
Total pension liability, beginning of year	495,862	479,236
Total pension liability, end of year	$ 527,321	$ 495,862

The following table summarizes the net pension liability at June 30, 2026 and 2025, as well as other required disclosures of financial measures, in thousands:

	2026	2025
Total pension liability	$ 527,321	$ 495,862
Plan fiduciary net position	(576,430)	(515,636)
Net pension asset	$ (49,109)	$ (19,774)
Plan fiduciary net position as a percentage of the total pension asset	109.31%	103.99%
Covered-employee payroll	$ 165,758	$ 154,690
Plan net pension asset as of a percentage of covered-employee payroll	-29.63%	-12.78%

DRAFT
Not to be reproduced or relied upon for any purpose

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2026 and 2025:

Valuation date	Actuarially determined contributions are calculated as of January 1, the first day of the fiscal year in which the contributions are reported
Methods and assumptions used	
Actuarial cost method	Entry age normal
Inflation	2.25%
Salary increases	5.25% or 3.75% 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, 2026 and 2025, in thousands:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
June 30, 2026	$ 20,689	$ (49,108)	$ (107,165)
June 30, 2025	$ 44,077	$ (19,774)	$ (73,136)

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026 and 2025, SVHMC contributed $155 thousand and $132 thousand, respectively, to fund benefits.

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

	2026	2025
Active employees	2,041	1,250
Retirees receiving benefits	70	87
Total plan participants	2,111	1,337

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:

	2026	2025
Service cost	$ 164	$ 160
Interest	155	156
Changes of benefit terms	2,502	-
Differences between expected and actual experience	(72)	(78)
Changes of assumptions	(50)	(33)
Total post-retirement medical benefits expense	$ 2,699	$ 205

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

	2026	2025
Deferred outflows of resources as of June 30		
Difference between expected and actual experience	$ 342	$ 303
Changes in assumptions	377	428
Total	$ 719	$ 731
Deferred inflows of resources as of June 30		
Difference between expected and actual experience	$ 1,037	$ 1,150
Changes in assumptions	891	738
Total	$ 1,928	$ 1,888

DRAFT
Not to be reproduced or relied upon for any purpose

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,	
2027	$ (122)
2028	(122)
2029	(122)
2030	(122)
2031	(119)
Thereafter	(602)
	$ (1,209)

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, 2026 and 2025, with a measurement date of June 30, 2025 and 2024, respectively, in thousands:

	2026	2025
Service cost	$ 164	$ 160
Interest	155	156
Change in benefit terms	2,502	-
Differences between expected and actual experience	79	(440)
Changes in assumptions	(252)	(52)
Benefit payments	(155)	(132)
Net change	2,493	(308)
Net post-retirement medical benefits liability, beginning of year	3,852	4,160
Net post-retirement medical benefits liability, end of year	$ 6,345	$ 3,852

The following table summarizes the actuarial assumptions used to determine net post-retirement medical benefits liability as of June 30, 2026 and 2025:

Valuation Date	June 30, 2025
Actuarial cost method	Entry Age Normal
Asset valuation method	Not applicable
Actuarial assumptions	
Compensation increases (needed for the Entry Age Normal cost method)	3.25%
Mortality	Base table: PubG-2016; Mortality Improvement Scale – MP-2021
Discount rate	5.20%
Healthcare cost trend rates	7.00% for 2025, graded to 5.00% for year 2033 and beyond for ages pre-65

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026 and 2025, in thousands:

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2026	$ 6,732	$ 6,345	$ 5,980
June 30, 2025	$ 4,078	$ 3,852	$ 3,636

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, 2026 and 2025, in thousands:

	1% Decrease	Current Cost Trend Rate	1% Increase
June 30, 2026	$ 6,292	$ 6,345	$ 6,386
June 30, 2025	$ 3,807	$ 3,852	$ 3,891

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.

SVH recognizes a liability for compensated absences attributable to services already rendered that accumulate and are more likely than not to be used or settled. The liability is generally measured using employees' pay rates as of the financial statement date and includes directly and incrementally associated salary-related payments.

DRAFT
Not to be reproduced or relied upon for any purpose

The following is a summary of changes in compensated absences liabilities for the years ended June 30, 2026 and 2025 (in thousands):

	Beginning Balance	Net change	Ending Balance	Current Portion
2026	$ 39,185	$ 4,380	$ 43,565	$ 29,640
2025	$ 37,350	$ 1,835	$ 39,185	$ 27,133

The current portion of compensated absences is included in accrued expenses in the accompanying consolidated statements of net position. The noncurrent portion is reported separately as compensated absences, net of current portion.

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.

SVH is a lessee for various noncancelable leases of office space and equipment with lease terms through 2036. During the years ended June 30, 2026 and 2025, 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, 2026 and 2025. SVH incurred no termination penalties during the years ended June 30, 2026 and 2025.

The following tables summarize ROU asset activity during the years ended June 30, 2026 and 2025, in thousands:

June 30, 2026	Beginning Balance	Increases	Decreases	Ending Balance
Building	$ 28,943	$ 3,811	$ (1,520)	$ 31,234
Equipment	9,269	3,367	(5,521)	7,115
Less accumulated amortization	(22,825)	(5,427)	4,732	(23,520)
Right-of-use assets, net	$ 15,387	$ 1,751	$ (2,309)	$ 14,829

June 30, 2025	Beginning Balance	Increases	Decreases	Ending Balance
Building	$ 25,584	$ 3,454	$ (95)	$ 28,943
Equipment	6,717	2,750	(198)	9,269
Less accumulated amortization	(18,301)	(4,524)	-	(22,825)
Right-of-use assets, net	$ 14,000	$ 1,680	$ (293)	$ 15,387

DRAFT
Not to be reproduced or relied upon for any purpose

During the years ended June 30, 2026 and 2025, SVH recognized $5,427 thousand and $4,524 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, 2026 and 2025, in thousands:

Year Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2026	$ 16,492	$ 5,436	$ (5,360)	$ 16,568	$ 4,623
2025	$ 15,515	$ 5,811	$ (4,834)	$ 16,492	$ 4,694

SVH's future principal and interest lease payments under lease agreements as of June 30, 2026, were as follows, in thousands:

Years Ending June 30,	Principal	Interest	Total
2027	$ 4,623	$ 808	$ 5,431
2028	4,306	545	4,851
2029	3,424	321	3,745
2030	2,334	148	2,482
2031	1,251	47	1,298
2032-2036	630	29	659
Total	$ 16,568	$ 1,898	$ 18,466

SVH evaluated the ROU assets for impairment and determined no impairment occurred during the years ended June 30, 2026 and 2025.

SVH is also a lessor for noncancelable leases of office space with lease terms through 2026. For the years ended June 30, 2026 and 2025, SVH recognized $406 thousand and $1,401 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, 2026 and 2025.

DRAFT
Not to be reproduced or relied upon for any purpose

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 2031. During the years ended June 30, 2026 and 2025, total payments under SBITAs were $2.2 million and $5.3 million, respectively. Additionally, SVH incurred variable SBITA expenses of approximately $2.0 million and $1.4 million during the years ended June 30, 2026 and 2025, respectively.

The following tables summarize subscription asset activity during the years ended June 30, 2026 and 2025, in thousands:

June 30, 2026	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	$ 27,572	$ 68,652	$ (1,100)	$ 95,124
Less accumulated amortization	(19,512)	(10,851)	1,100	(29,263)
Subscription assets, net	$ 8,060	$ 57,801	$ -	$ 65,861

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	$ 10,207	$ (2,147)	$ -	$ 8,060

The following table summarizes subscription liability activity during the years ended June 30, 2026 and 2025, in thousands:

Year Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2026	$ 5,656	$ 25,586	$ (2,187)	$ 29,055	$ 7,135
2025	$ 7,689	$ 3,235	$ (5,268)	$ 5,656	$ 2,780

DRAFT
Not to be reproduced or relied upon for any purpose

SVH's future principal and interest payments under SBITAs as of June 30, 2026, were as follows, in thousands:

Years Ending June 30,	Principal	Interest	Total
2027	$ 7,135	$ 1,750	$ 8,885
2028	5,105	1,596	6,701
2029	4,625	1,231	5,856
2030	3,390	826	4,216
2031	4,002	646	4,648
Thereafter	4,798	380	5,178
Total	$ 29,055	$ 6,429	$ 35,484

SVH evaluated the SBITAs for impairment and determined no impairment occurred during the years ended June 30, 2026 and 2025.

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 and 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 limited to, licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Violations could result in exclusion from government healthcare programs, significant fines and penalties, and repayments for patient services previously billed. Management believes, based on its current knowledge and information, that any resulting repayments or civil remedies would not have a material effect on SVH's consolidated financial position or results of operations.

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.

DRAFT
Not to be reproduced or relied upon for any purpose

Supplementary Information

DRAFT
Not to be reproduced or relied upon for any purpose

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position
June 30, 2026
(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	$ 295,366	$ 3,953	$ 2,801	$ -	$ -	$ 302,120
Patient accounts receivable, net of estimated uncollectibles of $71,509	146,642	1,501	-	-	-	148,143
Short-term investments	12,302	-	-	-	-	12,302
Supplies inventory	7,089	155	-	-	-	7,244
Lease receivable, current portion	715	-	-	-	-	715
Other current assets	51,855	1,303	1	-	-	53,159
Total current assets	513,969	6,912	2,802	-	-	523,683
BOARD-DESIGNATED FUNDS	181,149	-	-	-	-	181,149
CAPITAL ASSETS						
Nondepreciable	60,773	1,127	-	-	-	61,900
Depreciable, net	208,651	2,441	-	688	-	211,780
Total capital assets, net	269,424	3,568	-	688	-	273,680
OTHER ASSETS						
Right-of-use assets, net of amortization	11,833	2,996	-	-	-	14,829
Subscription assets, net of amortization	65,861	-	-	-	-	65,861
Lease receivable, net of current portion	2,294	-	-	-	-	2,294
Long-term investments	256,820	-	22,538	-	-	279,358
Investments in affiliates	26,924	-	-	-	(7,990)	18,934
Net pension asset	49,108	-	-	-	-	49,108
Other long-term assets	-	1,099	481	-	-	1,580
Total other assets	412,840	4,095	23,019	-	(7,990)	431,964
Total assets	1,377,382	14,575	25,821	688	(7,990)	1,410,476
DEFERRED OUTFLOWS - ACTUARIAL	40,473	-	-	-	-	40,473
DEFERRED OUTFLOWS - GOODWILL	549	-	-	-	-	549
Total deferred outflows	41,022	-	-	-	-	41,022
Total assets and deferred outflows	$ 1,418,404	$ 14,575	$ 25,821	$ 688	$ (7,990)	$ 1,451,498

DRAFT
Not to be reproduced or relied upon for any purpose

See report of independent auditors.

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position
June 30, 2026
(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	$ -	$ 114	$ -	$ -	$ -	$ 114
Accounts payable	25,060	160	184	-	-	25,404
Accrued expenses	89,173	2,700	18	-	-	91,891
Estimated third-party payor settlements	3,718	-	-	-	-	3,718
Lease liabilities, current portion	3,744	879	-	-	-	4,623
Subscription liabilities, current portion	7,135	-	-	-	-	7,135
Self-insurance liabilities, current portion	21,283	-	-	-	-	21,283
Total current liabilities	150,113	3,853	202	-	-	154,168
COMPENSATED ABSENCES, net of current portion	13,925	-	-	-	-	13,925
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	6,345	-	-	-	-	6,345
NOTES PAYABLE, net of current portion	-	326	-	-	-	326
LEASE LIABILITIES, net of current portion	8,753	3,192	-	-	-	11,945
SUBSCRIPTION LIABILITIES, net of current portion	21,920	-	-	-	-	21,920
SELF-INSURANCE LIABILITIES, net of current portion	11,680	-	-	-	-	11,680
Total liabilities	212,736	7,371	202	-	-	220,309
DEFERRED INFLOWS - ACTUARIAL	80,474	-	-	-	-	80,474
DEFERRED INFLOWS - LEASES	2,847	-	-	-	-	2,847
Total deferred inflows	83,321	-	-	-	-	83,321
Total liabilities and deferred inflows	296,057	7,371	202	-	-	303,630
NET POSITION (DEFICIT)						
Invested in capital assets, net of related debt	305,566	2,053	-	688	-	308,307
Reserved for minority interest	-	-	(300)	-	(9,980)	(10,280)
Restricted - expendable	-	-	2,903	-	-	2,903
Restricted - nonexpendable	-	-	1,271	-	-	1,271
Unrestricted	816,781	5,151	21,745	-	1,990	845,667
Total net position (deficit)	1,122,347	7,204	25,619	688	(7,990)	1,147,868
Total liabilities, deferred inflows, and net position (deficit)	$ 1,418,404	$ 14,575	$ 25,821	$ 688	$ (7,990)	$ 1,451,498

DRAFT
Not to be reproduced or relied upon for any purpose.

See report of independent auditors.

Salinas Valley Memorial Healthcare System
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2026
(in Thousands)

DRAFT
Not to be reproduced or relied upon for any purpose

See report of independent auditors.

DRAFT
Not to be reproduced or relied upon for any purpose

	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	$ 791,504	$ 24,490	$ -	$ 9,304	$ -	$ 825,298
Other revenues	41,432	1,027	-	-	-	42,459
Total operating revenues	832,936	25,517	-	9,304	-	867,757
OPERATING EXPENSES						
Salaries and wages	271,666	11,258	21	4,976	-	287,921
Compensated absences	46,446	1,026	-	1,094	-	48,566
Employee benefits	83,391	2,168	-	1,333	-	86,892
Supplies	121,100	1,619	-	311	-	123,030
Purchased services	79,381	821	1,407	50	(1,399)	80,260
Medical fees	91,356	3,844	-	2,497	-	97,697
Other fees	51,176	1,316	1,349	422	-	54,263
Depreciation and amortization	39,252	1,948	-	386	-	41,586
Other expenses	26,162	1,389	3,005	90	(4,248)	26,398
Total operating expenses	809,930	25,389	5,782	11,159	(5,647)	846,613
Operating income (loss)	23,006	128	(5,782)	(1,855)	5,647	21,144
NONCAPITAL SUBSIDIES						
Property tax revenue	6,409	-	-	-	-	6,409
Other noncapital subsidies	-	(1,050)	-	1,655	(605)	-
Total noncapital subsidies	6,409	(1,050)	-	1,655	(605)	6,409
Operating income (loss) and noncapital subsidies	29,415	(922)	(5,782)	(200)	5,042	27,553
NONOPERATING REVENUES AND EXPENSES						
Grants and contributions - capital subsidies	2,190	-	5,713	-	(5,647)	2,256
Investment income, net	23,753	15	3,333	-	-	27,101
(Provision for) reversal of credit losses	(16,181)	58	-	-	-	(16,123)
(Loss) gain on disposal of capital assets	(270)	164	-	-	-	(106)
Income from investments in affiliates	1,106	-	(168)	-	739	1,677
Other	(178)	(144)	(150)	-	(123)	(595)
Nonoperating (loss) income, net	10,420	93	8,728	-	(5,031)	14,210
Income (loss) before minority interest	39,835	(829)	2,946	(200)	11	41,763
MINORITY INTEREST IN NET INCOME OF CONSOLIDATED AFFILIATES	-	-	300	-	894	1,194
INCREASE (DECREASE) IN NET POSITION	39,835	(829)	3,246	(200)	905	42,957
NET POSITION (DEFICIT), beginning of year	1,082,512	8,033	22,373	888	(8,895)	1,104,911
NET POSITION (DEFICIT), end of year	$ 1,122,347	$ 7,204	$ 25,619	$ 688	$ (7,990)	$ 1,147,868

See accompanying notes.

Salinas Valley Memorial Healthcare System
Supplementary Schedule of Community Benefit (Unaudited)
Year Ended June 30, 2026

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, 2026 and 2025, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows, in thousands:

	2026	2025
Unpaid costs of Medi-Cal programs	$ 171,157	$ 154,012
Indigent charity care and bad debt	15,212	13,092
	$ 186,369	$ 167,104

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 $224.7 million and $197.7 million for the years ended June 30, 2026 and 2025, 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, 2026 and 2025, these volunteers contributed approximately 24,811 and 20,574 hours, respectively, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.

DRAFT
Not to be reproduced or relied upon for any purpose.

Required Supplementary Information

DRAFT
Not to be reproduced or relied upon for any purpose

Defined Benefit Pension Plan

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

	2026	2025
Number of active members	1,463	1,423
Number of frozen active participants	254	253
Number of retired members and beneficiaries	899	862
Number of vested terminated members	411	416
	3,027	2,954

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, 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, 2017	$ 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%
December 31, 2025	$ 12,371	$ 12,371	$ -	$ 165,758	7.46%

DRAFT Not to be reproduced or relied upon for any purpose

Salinas Valley Memorial Healthcare System
Supplementary Pension and Post Employment Benefit Information
June 30, 2026 and 2025
(in Thousands)

The following tables summarize changes in net pension liability (in thousands) over the last 10 years:

	2026	2025	2024	2023	2022
Total pension liability					
Service cost	$ 10,540	$ 10,868	$ 10,277	$ 10,508	$ 9,971
Interest on total pension liability	32,187	31,123	29,843	28,712	27,965
Difference between expected and actual experience	1,962	(1,045)	152	(2,138)	4,183
Changes of assumptions	9,186	(1,757)	-	-	(13,645)
Benefit payments	(22,416)	(22,563)	(19,767)	(18,836)	(16,233)
Net change in total pension liability	31,459	16,626	20,505	18,246	12,241
Total pension liability beginning of fiscal year	495,863	479,237	458,732	440,486	428,245
Total pension liability end of fiscal year	$ 527,322	$ 495,863	$ 479,237	$ 458,732	$ 440,486
Plan fiduciary net position					
Contributions - employer	$ 12,371	$ 12,603	$ 11,270	$ 61,579	$ 23,127
Contributions - employee	3,265	2,800	2,507	2,578	2,673
Net investment income	67,689	63,372	61,893	(83,884)	46,914
Benefit payments	(22,415)	(22,563)	(19,767)	(18,836)	(16,233)
Other changes in fiduciary net position	(117)	(114)	(84)	(92)	(112)
Net change in fiduciary net position	60,793	56,098	55,819	(38,655)	56,369
Plan fiduciary net position beginning of fiscal year	515,637	459,539	403,720	442,375	386,006
Plan fiduciary net position end of fiscal year	$ 576,430	$ 515,637	$ 459,539	$ 403,720	$ 442,375
Plan net pension (asset) liability	$ (49,108)	$ (19,774)	$ 19,698	$ 55,012	$ (1,889)
Plan fiduciary net position as a percentage of the total pension liability	109%	104%	96%	88%	100%
Covered-employee payroll	$ 165,758	$ 154,690	$ 151,837	$ 142,050	$ 138,820
Plan net pension (asset) liability as of a percentage of covered-employee payroll	-29.6%	-12.8%	13.0%	38.7%	-1.4%

	2021	2020	2019	2018	2017
Total pension liability					
Service cost	$ 9,739	$ 8,354	$ 8,079	$ 7,172	$ 7,005
Interest on total pension liability	26,944	25,007	24,405	22,570	21,001
Changes of benefit terms	(201)	-	-	-	-
Difference between expected and actual experience	(4,013)	(8,842)	(3,354)	(3,076)	4,488
Changes of assumptions	(1,836)	36,231	14,767	11,278	2,602
Benefit payments	(14,124)	(12,525)	(11,579)	(10,405)	(8,726)
Net change in total pension liability	16,509	48,225	32,318	27,539	26,370
Total pension liability beginning of fiscal year	411,736	363,511	331,193	303,654	277,284
Total pension liability end of fiscal year	$ 428,245	$ 411,736	$ 363,511	$ 331,193	$ 303,654
Plan fiduciary net position					
Contributions - employer	$ 23,766	$ 26,809	$ 21,927	$ 19,883	$ 21,982
Contributions - employee	1,976	1,594	1,209	840	475
Net investment income	43,389	52,346	(13,802)	32,510	8,198
Benefit payments	(14,124)	(12,525)	(11,579)	(10,405)	(8,726)
Other changes in fiduciary net position	(115)	(116)	(111)	(108)	(63)
Net change in fiduciary net position	54,892	68,108	(2,356)	42,720	21,866
Plan fiduciary net position beginning of fiscal year	331,115	263,008	265,365	222,646	200,781
Plan fiduciary net position end of fiscal year	$ 386,006	$ 331,115	$ 263,008	$ 265,365	$ 222,646
Plan net pension (asset) liability	$ 42,239	$ 80,621	$ 100,503	$ 65,828	$ 81,008
Plan fiduciary net position as a percentage of the total pension liability	90%	80%	72%	80%	73%
Covered-employee payroll	$ 127,771	$ 119,261	$ 112,353	$ 108,395	$ 130,810
Plan net pension (asset) liability as of a percentage of covered-employee payroll	33%	68%	89%	61%	62%

DRAFT
Not to be reproduced or relied upon for any purpose.

Salinas Valley Memorial Healthcare System
Supplementary Pension and Post Employment Benefit Information
June 30, 2026 and 2025
(in Thousands)

Supplemental post-retirement benefit information – As of June 30, 2026 and 2025, post-retirement medical benefits plan's fiduciary net position as a percentage of the total OPEB liability is 0% and 0%, respectively.

The following table summarizes changes in SVH's plan net OPEB liability (in thousands) over the last 9 years:

	2026	2025	2024	2023	2022
Total OPEB liability					
Service cost	$ 164	$ 160	$ 144	$ 211	$ 188
Interest	155	156	164	111	103
Change in benefit terms	2,502	-	-	-	-
Differences between expected and actual experience	79	(440)	11	(556)	352
Changes in assumptions	(252)	(52)	98	(583)	(61)
Benefit payments	(155)	(132)	(258)	(189)	(132)
Net change in total OPEB liability	2,493	(308)	159	(1,006)	450
Total OPEB liability beginning of fiscal year	3,852	4,160	4,001	5,007	4,557
Total OPEB liability end of fiscal year	$ 6,345	$ 3,852	$ 4,160	$ 4,001	$ 5,007
Covered-employee payroll	n/a	n/a	n/a	n/a	n/a
Plan net OPEB liability as of a percentage of covered-employee payroll	n/a	n/a	n/a	n/a	n/a

	2021	2020	2019	2018
Total OPEB liability				
Service cost	$ 156	$ 155	$ 167	$ 167
Interest	147	169	152	119
Change in benefit terms	-	-	-	38
Differences between expected and actual experience	(280)	(186)	-	(168)
Changes in assumptions	558	(161)	(89)	-
Benefit payments	(149)	(106)	(87)	(108)
Net change in total OPEB liability	432	(129)	143	48
Total OPEB liability beginning of fiscal year	4,125	4,254	4,111	4,063
Total OPEB liability end of fiscal year	$ 4,557	$ 4,125	$ 4,254	$ 4,111
Covered-employee payroll	n/a	n/a	n/a	n/a
Plan net OPEB liability as of a percentage of covered-employee payroll	n/a	n/a	n/a	n/a

DRAFT
Not to be reproduced or relied upon for any purpose

DRAFT
Not to be reproduced or relied upon for any purpose

Communications with the Board of Directors

Salinas Valley Memorial Healthcare System

June 30, 2026

Communications with the Board of Directors

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2026, and have issued our report thereon dated November XX, 2026. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated January 14, 2026, 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 (GAAS) 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 January 14, 2026, and during our planning meeting with you on June 17, 2026.

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. During fiscal year 2026, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*, and Statement No. 104, *Disclosure of Certain Capital Assets*. The adoption of GASB Statement No. 103 resulted in changes to the presentation and classification of certain revenues and expenses in the consolidated financial statements, including the presentation of noncapital subsidies. Prior-year amounts were reclassified to conform to the current-year presentation. The adoption of GASB Statement No. 104 had no impact on the System's consolidated financial statements.

No other new accounting policies were adopted, and there were no other changes in the application of existing policies during 2026. 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.
- Management evaluates the recoverability of funding and financing arrangements with healthcare affiliates, including Aspire Health Plan, and recognizes provisions for credit losses when appropriate. We evaluated management's assumptions regarding recoverability and the related provisions and determined that they were 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 Unites States of America, any change in these estimates is reflected in the consolidated financial statements in the year of change.

DRAFT
Not to be reproduced or relied upon for any purpose

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) 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 XX, 2026.

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.

DRAFT
Not to be reproduced or relied upon for any purpose

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.

DRAFT
Not to be reproduced or relied upon for any purpose

San Francisco, California
November XX, 2026

2026 Audit Results

Salinas Valley Health

bakertilly

Agenda

01 / Scope of Services

02 / Auditor Opinion and Report

03 / Required Communications

04 / Financial Information

05 / About Baker Tilly

bakertilly

01

Scope of Services

bakertilly

Relationships between Baker Tilly and the System:

01
Attest Services

Annual consolidated financial statement audit of Salinas Valley Health as of and for the year ended June 30, 2026

02
Nonattest Services

Assist management with drafting the consolidated financial statements of Salinas Valley Health as of and for the year ended June 30, 2026

bakertilly

02

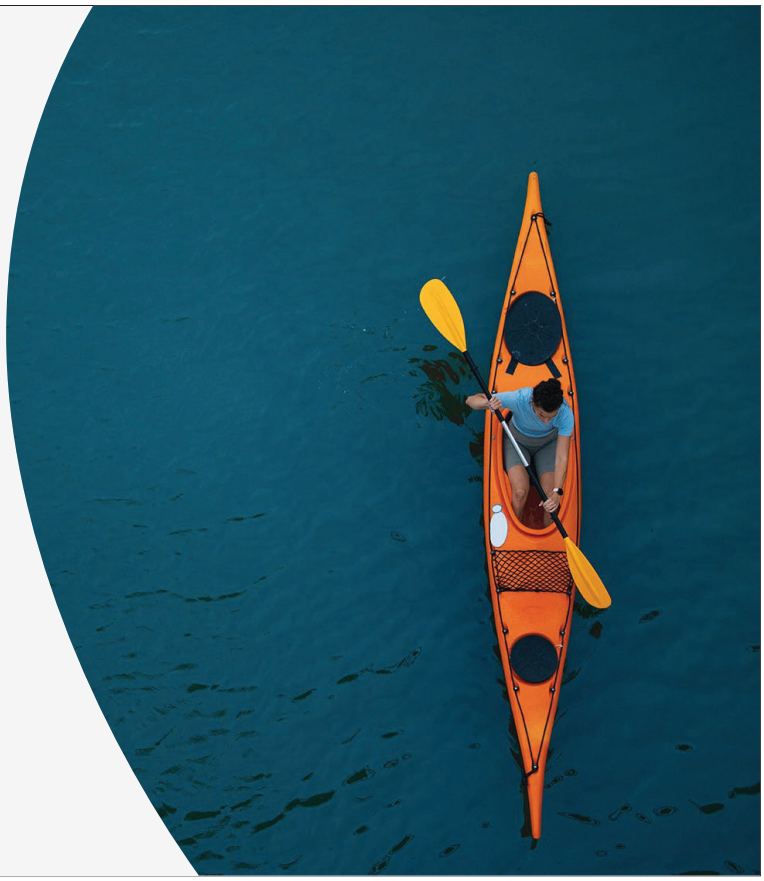
Auditor Opinion and Report

bakertilly

Auditor Report on the Consolidated Financial Statements

Unmodified Opinion

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



Significant Risks Identified

Significant Risks	Procedures
Valuation of Patient Accounts Receivable	• Tie out of reserving schedules • Zero Balance Accounts (ZBA) analysis • Lookback analysis & subsequent collections analysis
Revenue Recognition	• Patient revenue analysis & cut-off analysis • Journal entry testing focusing on revenue reversals
Management Override of Controls	• 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

bakertilly

Hospital Patient Accounts Receivable – trend analysis

($ in 000's)	2026	2025	2024	2023	2022
Net Patient Accounts Receivable	$120,832	$129,755	$111,334	$85,106	$83,766
Subsequent Cash Receipts 3 months after 6/30	$89,840	$91,440	$73,410	$64,858	$53,349*
% Collected 3 months after 6/30	74%	70%	66%	74%	64%*
Exposure 3 months' collections	$30,992	$38,315	$37,924	$20,248	$30,417*
Collected 15 months after 6/30	n/a	$123,067	$115,005	$86,285	$89,091
% Collected 15 months after 6/30	n/a	95%	103%	101%	106%

**2 months collection data*

bakertilly

03

Required Communications

bakertilly

Our Responsibility Under U.S. Generally Accepted 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 our audit in accordance with generally accepted auditing standards issued by the AICPA, as well as the State Controller's Minimum Audit Requirements for California Special Districts (Title 2, Section 1131.2), and obtain reasonable, rather than absolute, assurance that 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.

bakertilly

COMMUNICATION WITH GOVERNING BODY

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 2026, the System adopted Governmental Accounting Standards Board Statement No. 103, Financial Reporting Model Improvements, and Statement No. 104, Disclosure of Certain Capital Assets. The adoption of GASB Statement No. 103 resulted in changes to the presentation and classification of certain revenues and expenses in the consolidated financial statements, including the presentation of noncapital subsidies. Prior-year amounts were reclassified to conform to the current-year presentation. The adoption of GASB Statement No. 104 had no impact on the System's consolidated financial statements.

No other new accounting policies were adopted, and there were no other changes in the application of existing policies during 2026. We believe management has selected and applied significant accounting policies appropriately and consistent with those of the prior year.

bakertilly

COMMUNICATION WITH GOVERNING BODY

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.

bakertilly

COMMUNICATION WITH GOVERNING BODY

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.

bakertilly

COMMUNICATION WITH GOVERNING BODY

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

Uncorrected misstatements (passed adjustments):

- NONE

Corrected misstatements:

- NONE

bakertilly

COMMUNICATION WITH GOVERNING BODY

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
  - Nothing to report

bakertilly

04

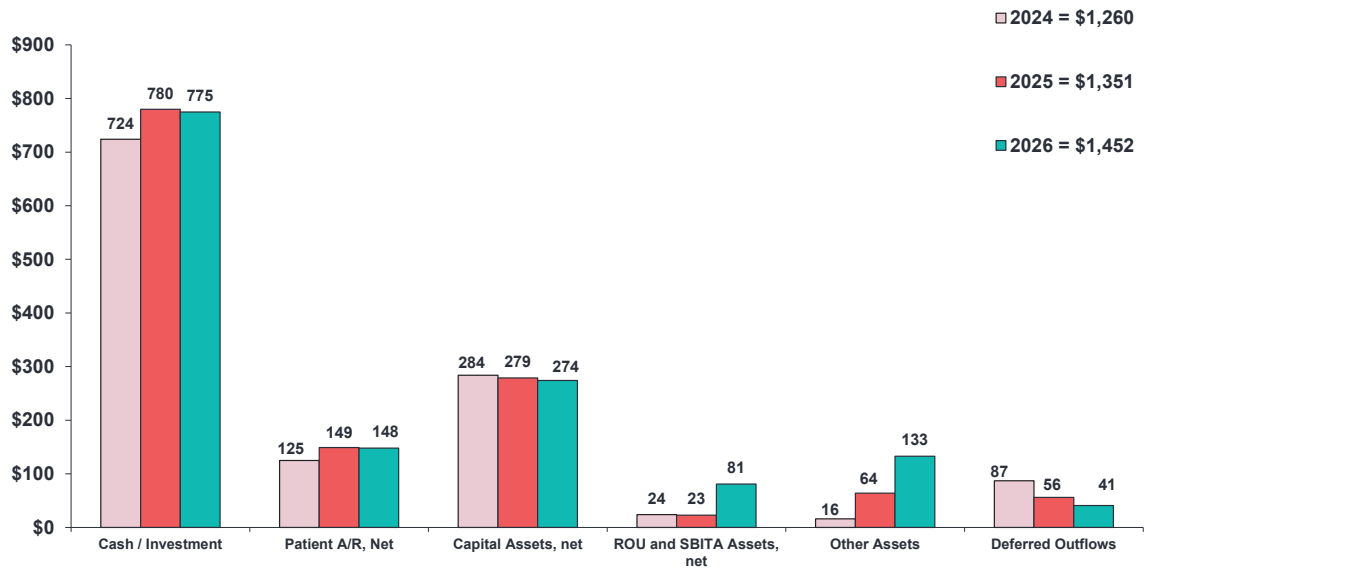
Financial Information

bakertilly

Consolidated Statements of Net Position

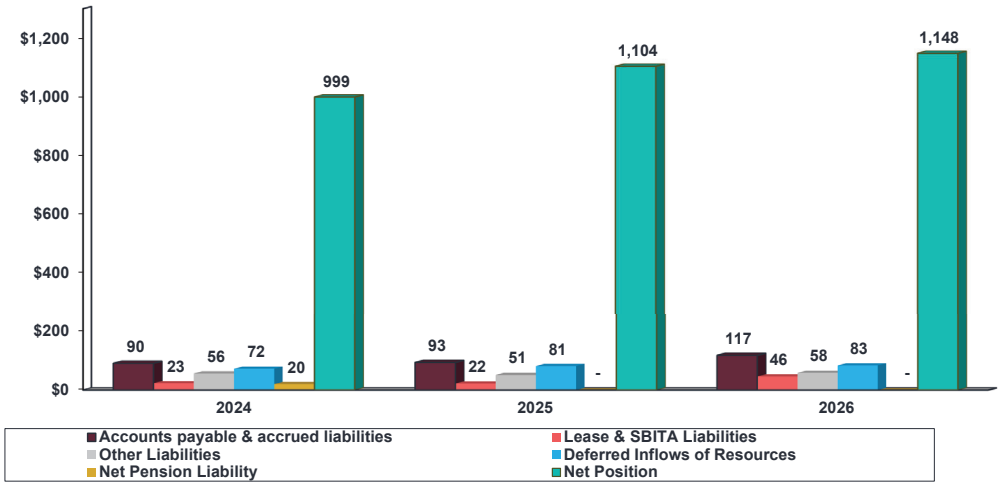
bakertilly

Assets and Deferred Outflows (in millions)



bakertilly

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

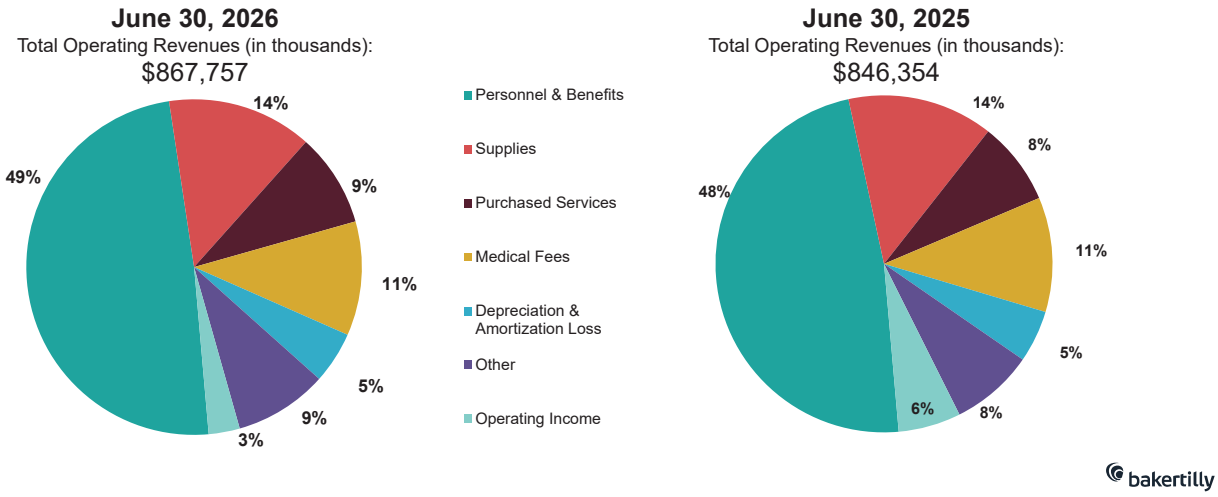


bakertilly

Consolidated Operations

bakertilly

Operating Expenses as a % of Operating Revenues

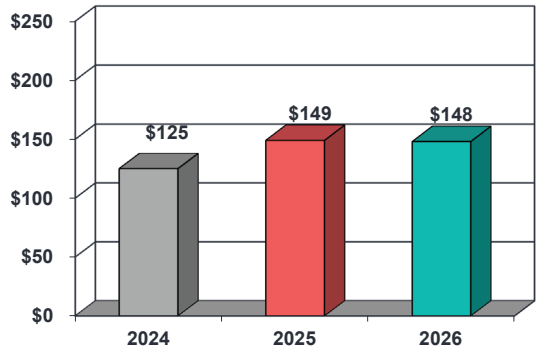


Other Information

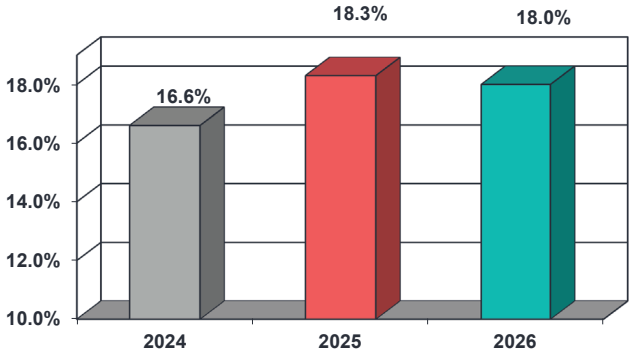
bakertilly

Net Patient Service Accounts Receivable

Dollars (in millions)

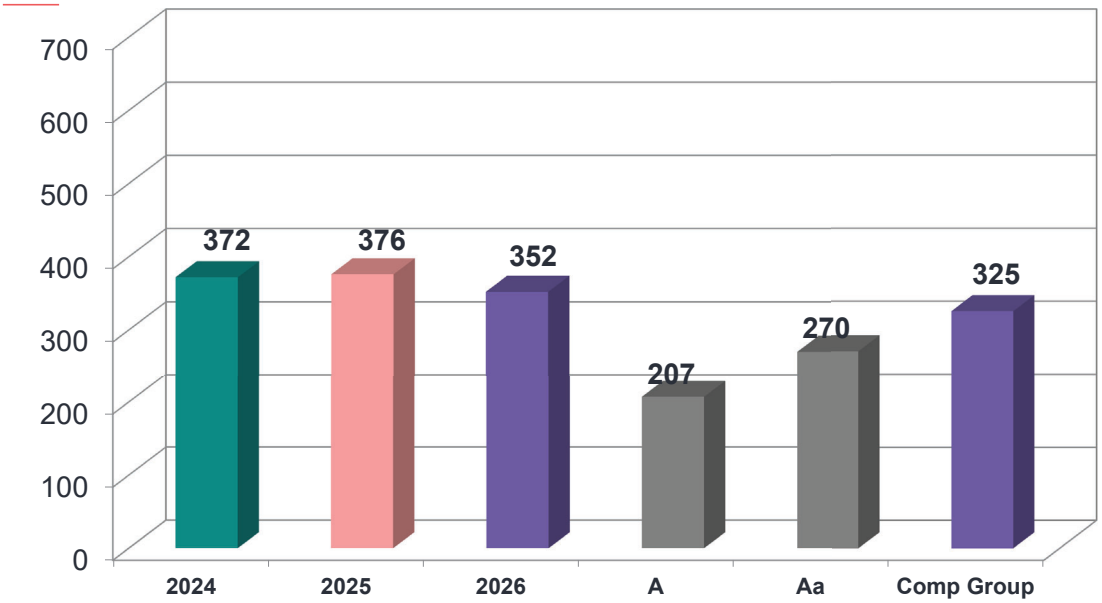


% Net Revenues



bakertilly

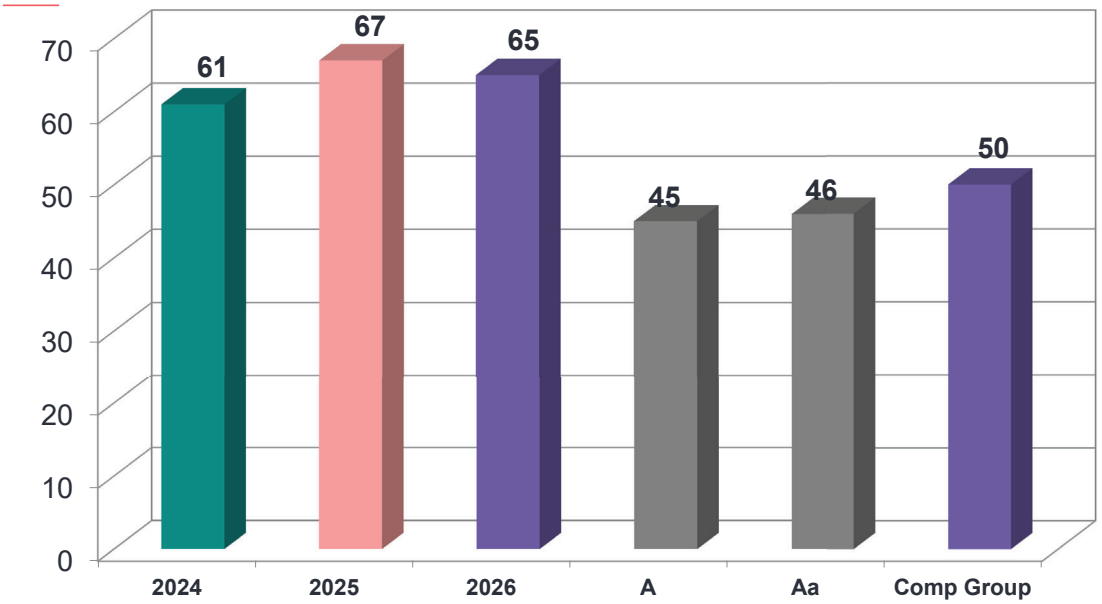
Days Unrestricted Cash and Investments



Fitch Ratings: *Fiscal Year 2025*
Not-for-Profit Health Care Medians August 2026

bakertilly

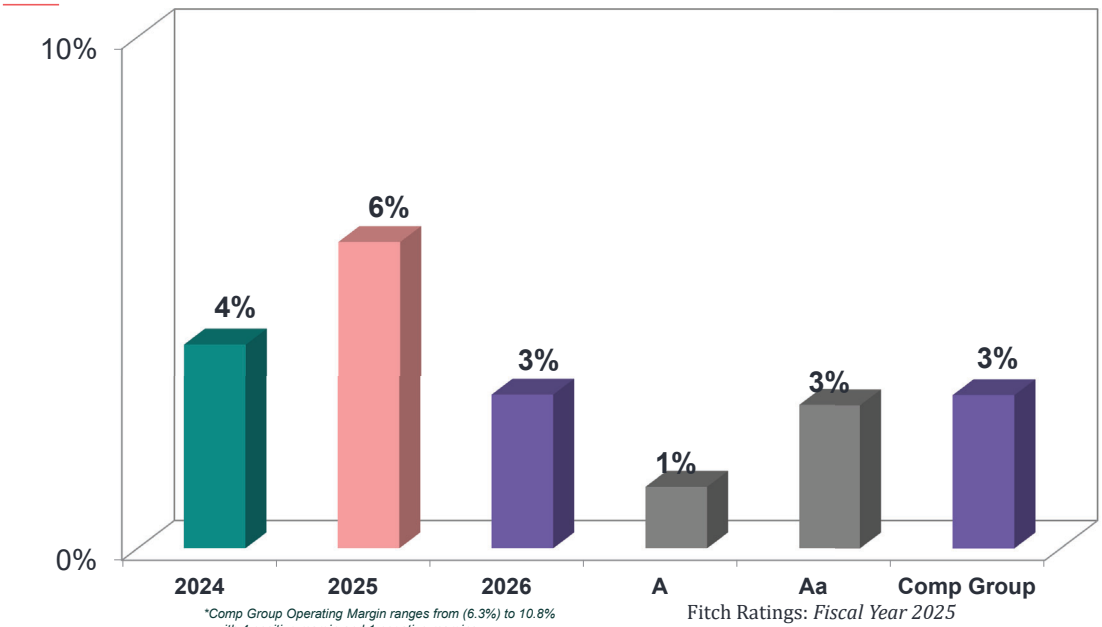
Days in Accounts Receivable



Fitch Ratings: *Fiscal Year 2025*
Not-for-Profit Health Care Medians August 2026

bakertilly

Operating Margin (Operating Income/Total Revenue)

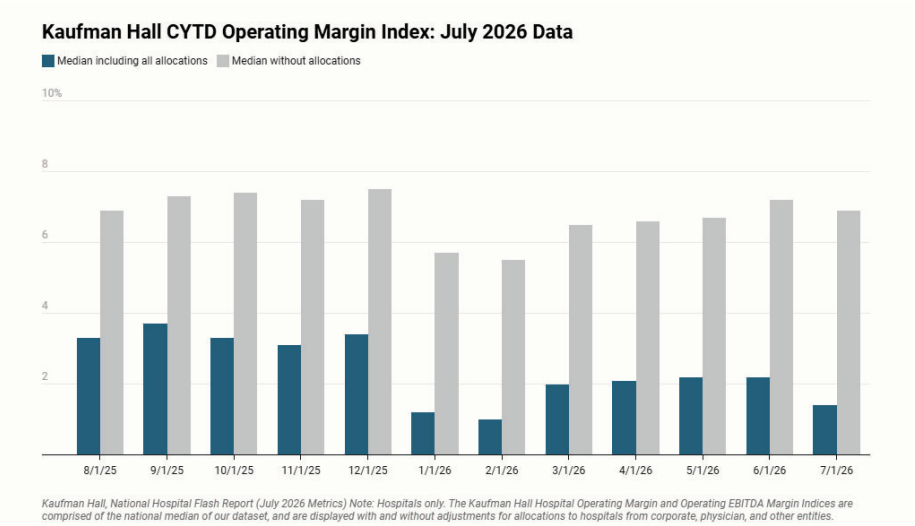


**Comp Group Operating Margin ranges from (6.3%) to 10.8% with 4 positive margin and 1 negative margins*

Fitch Ratings: *Fiscal Year 2025*
Not-for-Profit Health Care Medians August 2026

bakertilly

Operating Margin Index



Source: *National Hospital Flash Report,* July 2026, Kaufman Hall

bakertilly

GASB 103 – A Minor Presentation Change

Two revenue items are now shown separately. Total financial results are unchanged.

FY2025 BEFORE GASB 103		FY2025 AFTER GASB 103	
OPERATING		**OPERATING**	
Operating revenues		Operating revenues	
Operating expenses		Operating expenses	
Operating income		**Operating income**	
NONOPERATING		**NONCAPITAL SUBSIDIES**	
Property tax revenue	**$6.4m**	Property tax revenue	**$6.4m**
FEMA grant funding	**$6.3m**	FEMA grant funding	**$6.3m**
Other nonoperating items		**NONOPERATING**	
		Other nonoperating items	

FY2025 Increase in Net Position

$105.6m → $105.6m

No change to the bottom line

05

About Baker Tilly

bakertilly

Contact Us



Kimberly Sokoloff
Engagement Principal
Kimberly.Sokoloff@
bakertilly.com
(925) 952-2506



Brian Conner
Concurring Principal
Brian.Conner@
bakertilly.com
(209) 607-6114

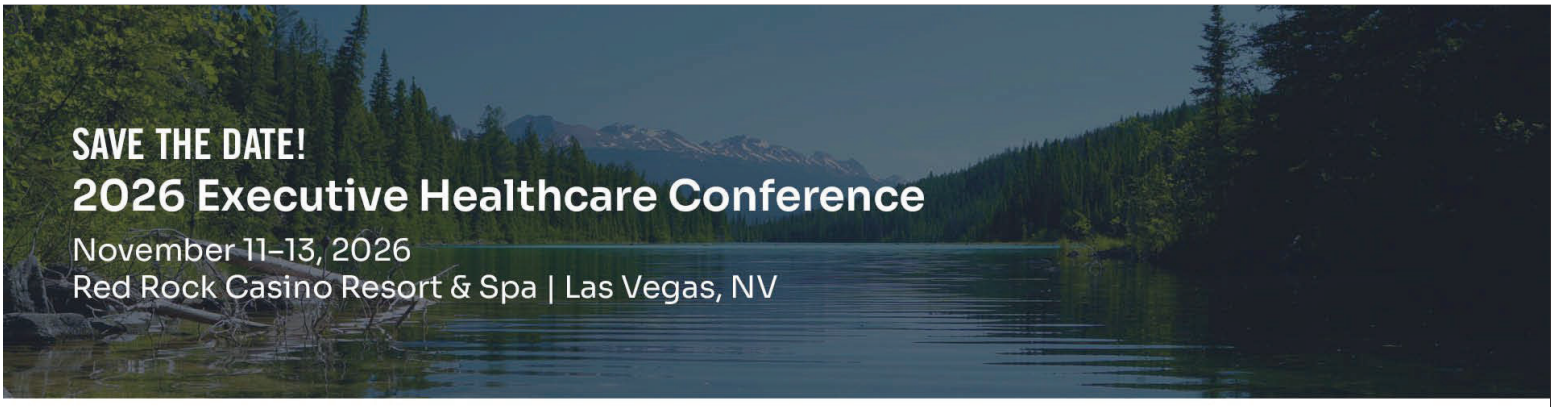


Katherine Djiauw
Engagement Director
Katherine.Djiauw@
bakertilly.com
(415) 677-8294



Nini Pham
Engagement Manager
Nini.Pham@
bakertilly.com
(415) 677-8347

bakertilly



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

HIGHLIGHTS

Nov. 11: Women's Executive Healthcare Leadership Forum

Nov. 12–13: Executive Healthcare Conference

State of the Union
Political Point-Counterpoints
Reception with Keynotes
Economic Forecast

bakertilly

LEARN MORE

10 Trends Impacting Health Systems in 2026

1. Reliance on supplemental funding puts health systems at risk of financial destabilization.

2. Fewer, more competitive growth avenues restrict health system evolution.

3. Persistent site-of-care shifts require new levers for ambulatory margin performance.

4. Care variation reduction emerges as an untapped lever for improving cost and efficiency.

5. As AI tools become embedded in clinical pathways, providers manage new categories of risk and reward.

6. AI adoption accelerates payer-provider impasse.

7. Shifts in regulatory action and demand catalyze VBC adoption.

8. The weakening safety net creates interdependencies within regional ecosystems.

9. Institutional distrust comes for health systems, with serious business and safety implications.

10. Surface–level improvements mask nursing workforce vulnerabilities.

Advisory Board

© 2026 Advisory Board • All rights reserved • advisory.com

bakertilly

Thank you.

bakertilly

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. Tax information, if any, contained in this communication was not intended or written to be used by any person for the purpose of avoiding penalties, nor should such information be construed as an opinion upon which any person may rely. The intended recipients of this communication and any attachments are not subject to any limitation on the disclosure of the tax treatment or tax structure of any transaction or matter that is the subject of this communication and any attachments. Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, operate under an alternative practice structure and are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms. The name Baker Tilly and its associated logo is used under license from Baker Tilly International limited. ©2026 Baker Tilly Advisory Group, LP

DRAFT
Not to be reproduced or relied upon for any purpose

Report of Independent Auditors and
Financial Statements with
Required Supplementary Information

Salinas Valley Memorial Healthcare District
Employees Pension Plan

December 31, 2025 and 2024

DRAFT
Not to be reproduced or relied upon for any purpose

Table of Contents

	Page
Report of Independent Auditors	**1**
Management's Discussion and Analysis	**4**
Financial Statements	
Statements of Fiduciary Net Position	8
Statements of Changes in Fiduciary Net Position	9
Notes to Financial Statements	10
Required Supplementary Information	
Schedules of Changes in System Net Pension (Asset) Liability and Related Ratios	19
Schedules of Employer Contributions	22
Schedules of Investment Returns	23

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

DRAFT
Not to be reproduced or relied upon for any purpose

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, 2025 and 2024. This section also includes selected comparative information as of and for the year ended December 31, 2023. 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, 2025, the net position held in trust for pension benefits increased by approximately 12%. Employer contributions were $12.4 million in 2025 compared to $12.6 million in 2024 and $11.3 million in 2023. Benefit payments were $22.5 million during 2025 compared to $22.7 million during 2024 and $20.0 million in 2023. Net investment income was $67.7 million during 2025 compared to $63.5 million during 2024 and $62.1 million in 2023.

Financial analysis – Total contributions have exceeded or equaled 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, 2025, the System's Board of Directors approved and funded employer contributions totaling $12.4 million to the Plan.

DRAFT
Not to be reproduced or relied upon for any purpose

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 pension (asset) liability as of December 31:

	2025	2024	2023
Total pension liability	$ 527,323,506	$ 495,862,717	$ 479,235,862
Plan fiduciary net position	(576,431,304)	(515,636,478)	(459,538,695)
System's net pension (asset) liability	$ (49,107,798)	$ (19,773,761)	$ 19,697,167
System's fiduciary net position as a percentage of total pension liability	109.31%	103.99%	95.89%

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

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

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

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

	2025	2024	2023
Cash and investments	$ 576,431	$ 515,636	$ 459,539

DRAFT
Not to be reproduced or relied upon for any purpose

During the years ended December 31, 2025 and 2024, the Plan's fiduciary net position increased by 12%. The Plan's fiduciary net position increased by 14% during the year ended December 31, 2023. 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:

	2025	2024	2023
Investment income	$ 67,689	$ 63,512	$ 61,893
Employer contributions	12,371	12,603	11,270
Member contributions	3,265	2,800	2,507
Benefit payments to members and beneficiaries	(22,415)	(22,704)	(19,767)
Administrative expenses	(116)	(114)	(83)
Change in fiduciary net position	$ 60,794	$ 56,097	$ 55,820

The change in fiduciary net position during the years ended December 31, 2025, 2024, and 2023 is due primarily to the employer contributions and investment income from the performance of equity markets during each year. Benefit payments to members and beneficiaries increased in 2024 due to the increased number of retirees and beneficiaries receiving benefits and remaining consistent compared to the prior year during 2025.

DRAFT
Not to be reproduced or relied upon for any purpose

Financial Statements

Salinas Valley Memorial Healthcare District
Employees Pension Plan
Statements of Fiduciary Net Position
December 31, 2025 and 2024

DRAFT
Not to be reproduced or relied upon for any purpose

	2025	2024
ASSETS		
Investments, at fair value		
Mutual funds	$ 576,431,304	$ 515,636,478
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$ 576,431,304	$ 515,636,478

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, 2025 and 2024

DRAFT
Not to be reproduced or relied upon for any purpose

	2025	2024
ADDITIONS		
Investment income		
Net appreciation in fair value of investments	$ 55,870,749	$ 51,590,893
Dividends	11,818,312	11,921,449
Total investment income	67,689,061	63,512,342
Contributions		
Employer	12,371,289	12,602,713
Members	3,265,267	2,800,377
Total contributions	15,636,556	15,403,090
Net additions	83,325,617	78,915,432
DEDUCTIONS		
Benefit payments	22,414,776	22,703,897
Administrative expenses	116,015	113,752
Total deductions	22,530,791	22,817,649
CHANGE IN NET POSITION	60,794,826	56,097,783
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	515,636,478	459,538,695
End of the year	$ 576,431,304	$ 515,636,478

See accompanying notes to these financial statements.

DRAFT
Not to be reproduced or used
upon for any purpose

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 as of December 31:

	2025	2024
Active members		
Number of active members under and over the normal retirement age	1,463	1,423
Active frozen members	254	253
Nonactive members and other beneficiaries receiving benefits		
Number of retirees and beneficiaries	899	862
Number terminated with vested benefits	411	416
	3,027	2,954

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.

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.

DRAFT
Not to be reproduced or shared
use for any purpose

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 five years of participation in the Plan 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 10 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.

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

DRAFT
Not to be reproduced or relied upon for any purpose

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:

	2025		2024	
	Fair Value	%	Fair Value	%
Mutual funds				
Domestic equity	$ 378,681,614	65%	$ 323,289,315	63%
Fixed income	170,724,481	30%	166,166,784	32%
Real estate fund	27,025,209	5%	26,180,379	5%
	$ 576,431,304	100%	$ 515,636,478	100%

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).

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, 2025 or 2024.

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. Domestic equity funds and the real estate fund are combined in the equity securities category below.

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

		Fair Value Measurements		
	December 31, 2025	Level 1	Level 2	Level 3
Mutual funds				
Equity securities	$ 405,706,823	$ 405,706,823	$ -	$ -
Fixed income	170,724,481	170,724,481	-	-
	$ 576,431,304	$ 576,431,304	$ -	$ -

		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	-	-
	$ 515,636,478	$ 515,636,478	$ -	$ -

Annual money-weighted rate of return – During the years ended December 31, 2025 and 2024, the annual money-weighted rate of return on the Plan's investments, net of investment expenses, was 13.22% and 13.90%, 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.

DRAFT
Not to be relied upon for any purpose

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, 2025 and 2024, 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, 2025 and 2024, the Plan's investments are entirely held in mutual funds with diversified holdings in underlying investments.

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 $12,371,289 and $12,602,713 for the years ended December 31, 2025 and 2024, respectively, and contributions to the Plan based on these amounts were directed and approved by the Board of Directors.

DRAFT
Not to be reproduced or relied upon for any purpose

Note 5 – System Net Pension Liability

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

	2025	2024
Total pension liability	$ 527,323,506	$ 495,862,717
Plan fiduciary net position	(576,431,304)	(515,636,478)
System net pension (asset) liability	$ (49,107,798)	$ (19,773,761)
Plan fiduciary net position as a percentage of total pension liability (funded status)	109.31%	103.99%

Note 6 – Actuarial Methods and Significant Assumptions

The total pension liability was determined as part of actuarial valuations as of December 31, 2025 and 2024, 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 as of December 31, 2025 and 2024, 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).

DRAFT
Not to be relied upon for any purpose

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, 2025 and 2024, 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	
	2025	2024
Domestic equity		
U.S. large cap equity	6.3%	6.8%
U.S. mid cap equity	6.7%	7.1%
U.S. small cap equity	6.9%	7.6%
International		
Equity	6.8%	7.3%
Emerging market equity	8.1%	8.0%
Alternative		
Real estate investment trust	5.7%	5.8%
Commodities	N/A	5.3%
Private equity	N/A	9.3%
Private credit	N/A	8.5%
Fixed income		
High yield bonds	6.2%	6.2%
Core bonds	4.5%	N/A
Long-term corporate bonds	4.8%	N/A
Treasury bonds	3.7%	4.3%
US agg	4.2%	4.5%
US TIPS	3.9%	4.3%
Global ex US	3.3%	4.0%
Emerging markets	5.7%	6.3%

Discount rate – As of December 31, 2025 and 2024, 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.

DRAFT
Not to be reproduced or relied upon for any purpose.

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	$ 20,688,690	$ (49,107,798)	$(107,164,609)

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.

DRAFT
Not to be reproduced or relied upon for any purpose

Required Supplementary Information

Salinas Valley Memorial Healthcare District
Employees Pension Plan

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

DRAFT
ot to be reproduced or relied
upon for any purpose

Salinas Valley Memorial Healthcare District
Employees Pension Plan

	Year Ended December 31,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability										
Service cost	$ 10,539,832	$ 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
Interest on total pension liability	32,187,685	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
Change of benefit terms	-	-	-	-	-	(201,797)	-	-	-	-
Difference between expected and actual experience	1,961,968	(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
Changes in actuarial assumptions	9,186,080	(1,756,558)	-	-	(13,644,957)	(1,835,817)	36,231,315	14,767,302	11,277,838	2,602,234
Benefit payments	(22,414,776)	(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)
Net change in total pension liability	31,460,789	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
Total pension liability										
Beginning of year	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
End of year (a)	$ 527,323,506	$ 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
Plan fiduciary net position										
Employer contributions	$ 12,371,289	$ 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
Member contributions	3,265,267	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)	67,689,061	63,512,342	61,892,945	(83,884,411)	47,033,347	43,530,843	52,346,352	(13,802,482)	32,509,516	8,198,171
Administrative expenses	(116,015)	(113,752)	(83,035)	(92,272)	(111,880)	(115,720)	(115,586)	(112,397)	(109,194)	(64,788)
Benefit payments	(22,414,776)	(22,703,897)	(19,767,150)	(18,835,673)	(16,352,414)	(14,266,188)	(12,525,484)	(11,578,811)	(10,404,996)	(8,726,267)
Net change in plan fiduciary net position	60,794,826	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
Plan fiduciary net position										
Beginning of year	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
End of year (b)	$ 576,431,304	$ 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
System net pension (asset) liability (a) - (b)	$ (49,107,798)	$ (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

DRAFT
Not to be reproduced or relied upon for any purpose

DRAFT
ot to be reproduced or relied
upon for any purpose

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

DRAFT
Not to be reproduced or relied upon for any purpose

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Excess	Covered Payroll	Contribution as a % of Covered Payroll
2025	$ 12,371,289	$ 12,371,289	$ -	$ 165,758,255	7.46%
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%

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	2016 - 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 - 2025: 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	2016 - 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 2024-2025: 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

DRAFT
Not to be reproduced or relied upon for any purpose

	Year Ended December 31,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Annual money-weighted rate of return, net of investment expenses	13.22%	13.90%	15.45%	-18.04%	12.01%	12.92%	19.53%	-5.11%	14.22%	3.74%

bakertilly

Salinas Valley Memorial Healthcare District Employees Pension Plan

2025 Audit Results

Report to Corporate Compliance and Audit Committee

November 11, 2026

Baker Tilly US, LLP, trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © 2022 Baker Tilly US, LLP.



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, 2025
- 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

	2023	2024	2025
Total pension liability (a)	**$ 479,235,862**	**$ 495,862,717**	**$ 527,323,506**
Plan fiduciary net position			
Employer contributions	$ 11,269,905	$ 12,602,713	$ 12,371,289
Member contributions	2,506,514	2,800,377	3,265,267
Net investment income	61,892,945	63,512,342	67,689,061
Administrative expense	(83,035)	(113,752)	(116,015)
Benefit payments	(19,767,150)	(22,703,897)	(22,414,776)
Net change in plan fiduciary net position	55,819,179	56,097,783	60,794,826
Plan fiduciary net position			
Beginning of year	403,719,516	459,538,695	515,636,478
End of year **(b)**	**$ 459,538,695**	**$ 515,636,478**	**$ 576,431,304**
System net pension liability (asset) (a) - (b)	**$ 19,697,167**	**$ (19,773,761)**	**$ (49,107,798)**
Funded status (GASB basis)	**95.9%**	**104.0%**	**109.3%**

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	• 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	• Tested completeness and accuracy of census data used • Verified assumptions used in the valuation and measurements including changes in assumptions
Management override of controls	• 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
- No new accounting standards were adopted in 2025 (GASB Statement No. 103 will impact the 2026 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 transaction testing and interviews of personnel
- Baker Tilly is independent with respect to the Plan and its sponsoring employer

Your Service Team



Kory Hoggan
Engagement Principal

Kory.Hoggan@bakertilly.com
(505) 878-7214



Lisa Todd
Concurring Reviewer



Aaron Hamilton
Director



Philip Baiamonte
Assurance Manager

THANK YOU

ADJOURNMENT